Case Application

Steel Industry Does an About-Face

For years, the U.S. steel industry led the fight *for* free trade. Today, it is fighting *against* free trade.

The emergence of a mature, efficient steel industry in Germany, Japan, South Korea, and elsewhere has tipped the scales. Not only have U.S. steel firms been priced out of many foreign markets, they are in a struggle with foreign competitors for the profitable North American steel market.

The steel industry is suffering from lagging productivity and the higher costs associated with environmental protection regulations. As a result of rising production costs, the price of a ton of domestic steel is so high that American steel users are finding it more cost effective to import larger and larger quantities from foreign suppliers. In order to reduce the price differentials of domestic steel compared to foreign steel, U.S. steel firms have pleaded for relief from environmental controls as well as new restrictions on the importation of foreign steel.

Both labor and management in the steel industry are now far more sensitive to the implications of their low productivity. Steel output in the United States declined from a peak of 116.6 million tons in 1978 to 88.3 million tons in 1991. Between 1970 and 1991, the U.S. share of world steel ingot and castings production fell from 20% to 11%. But some small steel plants, using advanced smelting technology—the so-called minimills—have been able to undersell imported steel and are increasing their sales.

The steel industry claims that the problem is not so much high production costs in the United States as it is unfair competition from foreign producers, subsidized by their governments. The Commerce Department declared that steel imported from nine countries was, in fact, subsidized and being sold in the United States at unfairly low prices. As a result, the government imposed an additional tax on foreign steel that ran as high as $250 a ton on some imports. Higher steel prices as a result cost U.S. consumers at least $5 billion annually.

■ The U.S. steel industry, suffering from lagging productivity and the high costs of government regulation, is fighting for protection from foreign competition.

Economic Reasoning

1. Who will gain and who will lose as a result of the higher taxes on steel imports?

2. Why was the steel industry at one time in favor of free trade?

3. Do you think that the steel industry should get more protection from imports? Why or why not?