"Fairness" And The Steel Steal

Whenever anyone talks about "fairness," the average American had better look to his wallet. When social pressure groups invoke "fairness," it means that American business must be saddled with quotas for mandatory hiring or promoting of myriad special interest groups, depending on who can get themselves organized and win the ear of the politicians.

When businessmen talk of "fair trade" or "fair competition," it means that they are pressuring the government to use coercion to cartelize their industry, to restrict production, raise prices, and allow the flourishing of inefficient and uncompetitive practices.

In business, the other guy, your competitor, if he is efficient and is successfully cutting into your business, is by definition engaging in "unfair competition" and "unfair trading practices."

Such strictures, of course and again by definition, never seem to apply to the subsidies *you* may be receiving from government or to these very cartel policies that you are calling for.

Of all the industries in the United States, the one that has most consistently and successfully run whining for special privilege to the U.S. government has been iron and steel. Since 1969, the iron and steel industry, facing new competition from European firms that had recovered from World War II, lobbied for and received from the U.S. a system of steel import quotas, which severely restricted steel imports, drove up steel prices sharply, and caused repeated shortages for American steel-using manufacturers. Such steel import quotas, strong-armed and enforced by the U.S. government, were referred to in Orwellian fashion as "voluntary restraint agreements," though agreed to under substantial duress by the foreign governments.

These import quotas were always supposed to be temporary, to allow American steel companies to recover from whatever crises they claimed to have suffered, but the quotas of course kept being renewed. Finally, in the spring of 1992, they were allowed to lapse, but not because of an attack of free-trade fervor in the steel industry or in the "free trade" Bush administration. On the contrary, the steel industry decided that they had captured so much of the market share under cover of the quotas, that they were ready to shift the *form* of their protection from import quotas to higher tariffs, since the quotas were no longer keeping out very much foreign steel.

The Bush Commerce Department decided that a dozen countries, Mexico plus mainly European nations, were "unfairly" subsidizing their own steel industries, and that the tariffs against them must rise to offset this advantage. The fact that the U.S. steel companies are themselves heavily subsidized by the government (e.g. with special loans, development grants, and pension guarantees), did not of course enter into the equation. Tariffs on various forms of steel must now rise up to 90%. The result will be higher costs, restricted production, and higher prices imposed on a myriad of American steel-using industries, notably appliances, automobiles, and construction, which will harm the American consumer and hurt the competitiveness of American industry at home and abroad.

Moreover, the Commerce Department and the U.S. government's ultimate decision-maker, the International Trade Commission, will rule on still higher steel tariffs, to offset the alleged "dumping" of steel by 20 foreign countries, that is selling at prices below what the U.S. government designates to be "fair market value" in plain English, a "value" set not by the *market* but high enough to make it easy for inefficient U.S. companies to compete.

This is not a new story for the steel industry, which has been a pernicious influence on American political life for nearly two centuries. During the War of 1812, the American iron industry, centered in Pennsylvania was able to take advantage of the cutoff of foreign trade during the war to expand and fill the place naturally taken by imports from England. After the war, however, the artificially swollen and inefficient Pennsylvania iron plants were unable to compete with imports from England. In response, the Pennsylvania iron industry established the first nationwide mass movement for a protective tariff, employing the Philadelphia newspaper publisher and printer Matthew Carey to head the agitation; Carey was particularly interested in a protective tariff against foreign printers. A bill for a protective tariff was introduced in Congress by Rep. Henry Baldwin of Pittsburgh, himself an ironmaster (an older term for iron manufacturer).

By the 1840s, the national Democratic party was able to defeat the northern protectionists and establish freedom of trade. During the Civil War, however, the protectionist Republicans were able to use the virtual one-party Congress to drive through their entire national-statist economic program, including protective tariffs on iron and steel and other manufactures.

Heading the protectionist forces and the Radical Republicans was Pennsylvania Congressman Thaddeus Stevens, himself an ironmaster and interested in crushing the pro-free trade and anti-protectionist South. And every week at his Philadelphia salon, the venerable economist Henry C. Carey, son of Matthew and himself an ironmaster, instructed the Pennsylvania power elite at his "Carey Vespers," why they should favor fiat money and a depreciating greenback as well as a protective tariff on iron and steel. Carey showed the assembled Republican bigwigs, ironmasters, and propagandists, that expected future inflation is discounted far earlier in the foreign exchange market than in domestic sales, so that the dollar will weaken faster in foreign exchange markets under inflation than it will lose in purchasing power at home. So long as the inflation continues, then, the dollar depreciation will act like a second "tariff," encouraging exports as well as discouraging imports.

The arguments of the steel industry differed from one century to the next. In the 19th century, their favorite was the "infant industry argument": how can a new, young, weak, struggling "infant" industry as in the United States, possibly compete with the well-established mature, and strong iron industry in England without a few years, at least, of protection until the steel baby was strong enough to stand on its two feet?

Of course, "infancy" for protectionists never ends, and the "temporary" period of support stretched on forever. By the post-World War II era, in fact, the steel propagandists, switching their phony biological metaphors, were using what amounted to a "senescent industry argument": that the American steel industry was old and creaky, stuck with old equipment, and that they needed a "breathing space" of a few years to retool and rejuvenate.

One argument is as fallacious as the other. In reality, protection is a subsidy for the inefficient and tends to perpetuate and aggravate the inefficiency, be the industry young, mature, or "old." A protective tariff or quota provides a shelter for inefficiency and mismanagement to multiply, and for the excessive bidding up of costs and pandering to steel unions. The result is a perpetually uncompetitive industry. In fact, the American steel industry has always been laggard and sluggish in adopting technological innovation--be it the 19th-century Bessemer process, or the 20th-century oxygenation process. Only exposure to competition can make a firm or an industry competitive.

As for "unfairly" low pricing or dumping, this is trumped-up nonsense by American firms who are being out-competed. But if a foreign country should be silly enough to engage in this practice, we should rush to take advantage of it rather than penalizing it. Suppose, for example, that Mexico, by some quirk, decides to "dump" steel by giving it away free, or charging a nominal penny a ton. Instead of barring these goodies, we should applaud as American buyers--in this case steel-using manufacturers--rush to buy these bargains so long as they might last. Until the inevitable day comes when Mexico goes bankrupt and reverses this nutty policy, the American buyers and the consumers will enjoy a bargain bonanza. "Dumping" can harm only the dumper; it always benefits the dumpee.