BY ROBERT J. BARRO

BIG STEEL DOESN'T NEED ANY MORE PROPPING UP

JAY REED

WRONG: Bush's call for new steel tariffs prolongs a sad legacy of price supports that benefits owners and workers— but not America

I like many of President George W. Bush's policies, especially the committed pursuit of the war on terrorism. His approach to tax policy is also commendable in many respects. However, any fan of the President had to be very disappointed by his decision to implement high tariffs on steel imported into the U.S.

The President's defense was pathetic: He argued that the steel tariffs were somehow consistent with free trade, that the domestic industry was important and struggling, and that the relief was a temporary measure to allow time for restructuring. One reason that this argument is ludicrous is that U.S. integrated steel companies ("Big Steel") have received various forms of government protection and subsidy for more than 30 years.

The protectionist tradition dates back to 1969, when President Richard M. Nixon forced Japan and Europe to accept so-called voluntary export restraints to avoid formal U.S. quotas. (This unfortunate economic policy fit in well with other Nixonian economic errors, including price controls, a sharp expansion of Social Security benefits, the Endangered Species Act, and the 55-mile-per-hour speed limit. I have long argued that Nixon deserved to be impeached for economic policy, if not for Watergate.)

Instead of encouraging the industry to restructure, the long-term protection has sustained inefficient companies and cost U.S. consumers dearly. As Anne O. Krueger, now deputy managing director of the International Monetary Fund, said in a report on Big Steel in 2000: "The American Big Steel industry has been the champion lobbyist and seeker of protection.... It provides a key and disillusioning example of the ability of special interests to lobby in Washington for measures which hurt the general public and help a very small group." Another way to say this is that for each dollar American taxpayers and consumers pay for steel protection, perhaps 50¢ benefits owners and workers at big U.S. steel companies and the other 50¢ is wasted.

Since the 1950s, Big Steel has been reluctant to make the investments needed to match the new technologies introduced elsewhere. It was slow to replace open-hearth furnaces with basic oxygen furnaces and was late in introducing continuous casting. Big Steel also acquiesced to high wages for its unionized labor force. Hence, the companies have difficulty in competing not only with more efficient producers in Asia and Europe but also with technologically advanced U.S. minimills, which rely on scrap metal as an input. Led by Nucor Corp., these mills now capture about half of overall U.S. sales.

The profitability of U.S. steel companies depends also on steel prices, which, despite attempts at protection by the U.S. and other governments, are determined primarily in world markets. These prices were relatively high as recently as early 2000 but have since declined with the world recession to reach the lowest dollar values of the last 20 years. Although these low prices are unfortunate for U.S. producers, they are beneficial for the overall U.S. economy. The low prices are also a signal that the inefficient Big Steel companies should go out of business even faster than they have been.

Instead of leaving or modernizing, the dying Big Steel industry complains that foreigners dump steel by selling at low prices. However, it is hard to see why it is bad for the overall U.S. economy if foreign producers wish to sell us their goods at low prices. After all, the extreme case of dumping is one where foreigners give us their steel for free and why would that be a bad thing?

Once Bush relinquished Republican claims to the free-trade mantle by championing steel protection, one might have expected Democrats to take up the cause. Democrats could also have complained about the corporate welfare contained in Bush's actions. Instead, the main Democratic objection is that Bush did not go far enough, that he should have enacted steeper tariffs. How sad, but the obvious explanation for the Democratic stance is that protection benefits unionized steel workers, as well as steel companies, in some politically important states. Both parties are trying to get these union votes for the upcoming November elections and are hoping that the rest of the electorate will not notice that they have been harmed.

I am confident that Bush's main economic advisers deplore the new steel tariffs. But there remains the question of what they are supposed to do, now that the President has rejected their arguments. Going public in opposition to a major part of an Administration's economic policy is not consistent with remaining as a functioning part of the economic team. Hence, the real choice is between keeping mostly quiet (as seems to be happening), except for Treasury Paul O'Neill, or being sufficiently disgusted to leave the government. Probably, I would choose the latter course. But this choice would be easy for me because, except for the time when President Ronald Reagan was first elected in 1981, I never wanted a position as a policy adviser in the first place. ■

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