# American Steel Tariffs

In March 2018, President Trump imposed a 25 percent tariff on imports of foreign steel into the United States (and a 10 percent tariff on aluminum imports). In justifying the steel tariff, Trump argued that a strong domestic steel industry was necessary for the national security of the United States. In 2017, some 36 million tons of steel were imported into the U.S., while 81.6 million tons were produced domestically. Import penetration into the U.S. had increased from about 23 percent of total steel consumption in 2007 to 31 percent in 2017. The U.S. exports about 2 million tons of steel per year. There were roughly 140,000 people employed In the U.S. steel industry in 2018, and around 6.5 million employed in industries that consumed steel, including construction, machinery, and automobiles.

This was not the first time the U.S. steel industry had been the beneficiary of import tariffs. The industry has a long history of tariff protection. Some critics complain that this is linked to the importance of steel producing states such as Indiana, Pennsylvania, and Ohio in U.S. presidential elections. In 2002, the Bush administration placed tariffs ranging from 8 percent to 30 percent on imports of foreign steel. The U.S. exempted its NAFTA partners Canada and Mexico from these tariffs. The Bush tariffs were lifted nine months later after significant opposition from businesses in steel-consuming industries, who claimed that higher steel prices were resulting in significant job losses. In 2016, the Obama administration imposed punitive tariffs as high as 500 percent on imports of some steel products from China, arguing that Chinese producers were dumping excess steel production in the United States at below the costs of production. Due to the Obama tariffs (which remain in place), by the time of Trump's announcement, China accounted for only 2 percent of U.S. steel imports. The largest steel exporters to the United States in 2017 were Canada, South Korea, Mexico, and Brazil.

The Trump administration argued that this round of steel tariffs would help revitalize the struggling U.S. steel industry. Critics countered that the result would be higher prices for steel consumers and job losses in those industries. The early evidence is mixed. Domestic steel production in the U.S. increased by around 7 percent in the first year after the tariffs were imposed, while imports fell around 10 percent. The prices of U.S. steel products increased by around 20 percent in 2018 and profits for U.S. steel producers improved. Flush with cash, there have been several announcements regarding planned expansions in capacity from domestic steel producers, including Nucor, Steel Dynamics Inc., and U.S. Steel Corp. These plans would add about 8.3 million tons of production to the U.S. steel industry, increasing its capacity by 14 percent.

On the other hand, some steel consumers have pushed back, pointing out that higher steel prices are hurting their businesses. General Motors, a major steel consumer, announced in November 2018 that Trump's tariffs on steel (and aluminum) would cost it over $1 billion a year. The company announced plans to shut several plants and eliminate 15,000 jobs (although higher steel prices were not the only factor here). Similarly, the iconic American motorcycle manufacturer Harley Davidson announced that its 2018 profits were wiped out by higher metal costs due to Trump's tariffs. The company has announced plans to move some production overseas as a way of avoiding the high costs of metals in the United States and supporting foreign sales. Consistent with these example, recent academic studies have suggested that through the middle of 2019, the higher steel and aluminum tariffs were associated with 0.6 percent fewer jobs in the manufacturing sector than would have been the case without the tariffs. That translates into about 75,000 fewer jobs in industries that use steel and aluminum to make

other products. On the other hand, growth in employment in the steel-producing industry amounted to no more than 1,000 jobs over the same time period.

# Case Discussion Questions

1. The steel industry has a long history of asking for, and getting, tariff protection from foreign competitors. Why do you think this is the case?
2. Who pays the tariffs on imports on foreign steel in the United States? How does the payee deal with the additional cost that the tariffs represent?
3. What was the motivation of the Trump administration in placing tariffs on imports of foreign steel in 2017? Who benefits from these tariffs? Who loses? In your estimations, are the tariffs and net positive or negative for the American economy?