National Security Tariffs on Steel Are Working Without Causing Job Loss in Downstream Industries

The Section 232 national security tariffs on certain steel imports have stabilized the American steel industry while avoiding serious harm to downstream producers and workers. While supply chain whiplash induced by the COVID-19 pandemic has triggered some global price and supply instability across virtually all commodities, including steel, the market is correcting. Diluting or withdrawing the national security tariffs would invite import surges and damage the domestic industry at the very moment circumstances are underscoring the importance of Made in America products such as steel. The bold investments proposed by the Biden administration stand to benefit steel producers and consumers alike.

Background: The closure of 10 major U.S. steel-producing mills since 2000, the dramatic rise of state-owned steelmakers in China, recurrent dumping and subsidization of imports, and pervasive global overcapacity led to the March 2018 decision by the U.S. government to limit steel imports through 25% tariffs on some imported steel, along with quotas and exemptions for some countries. Additional accommodations for steel consumers were made through a product exclusion process. Around 30% of imported steel is currently subject to the Section 232 tariffs.

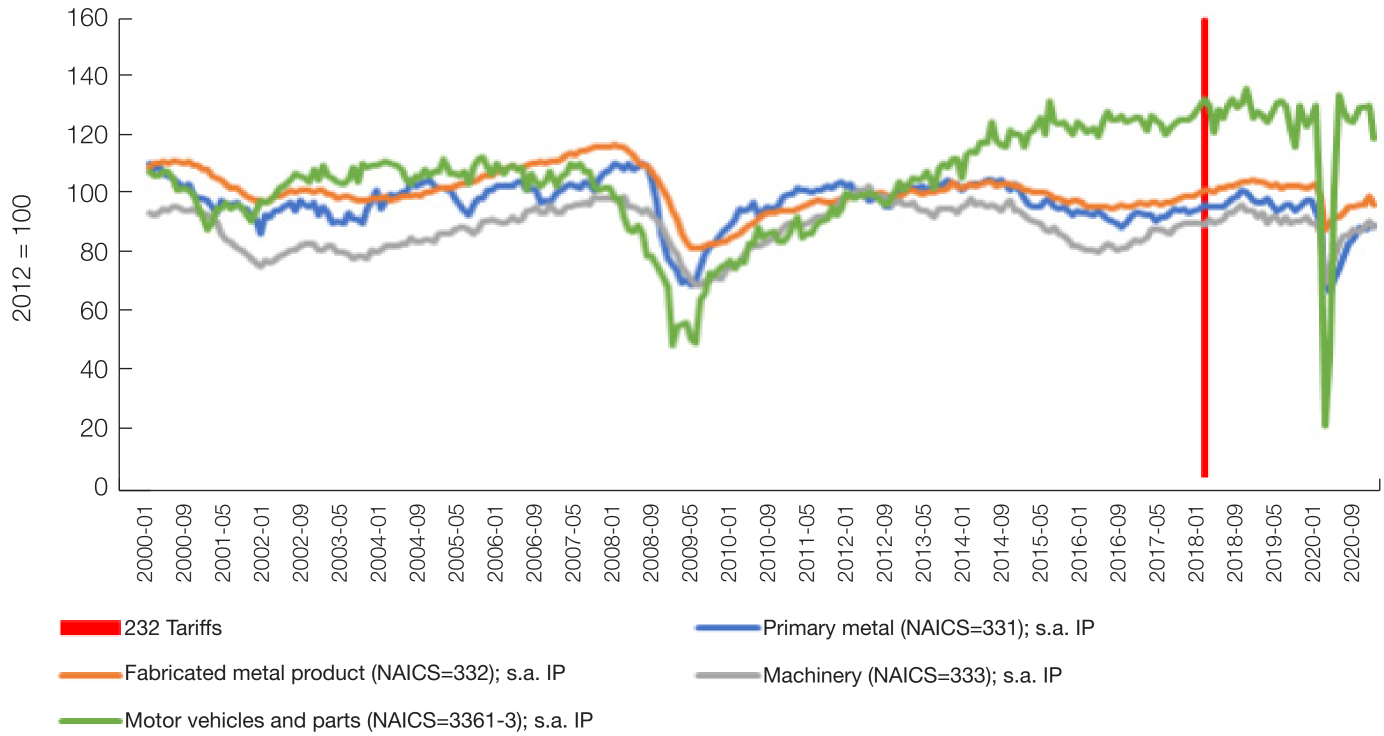
Positive Impact for American Steelmakers: The tariffs lowered import penetration into the U.S. market, allowing domestic steelmakers to invest $15.7 billion in upgrades, carbon reduction technology, new facilities, and their workers. More than $5.9 billion was invested by nine firms in plant acquisitions as part of industry restructuring to increase efficiency, preserving additional jobs at those facilities. Prior to the pandemic jobs shock, metals employment grew by 3.8% in 2018 and 2019 compared to the prior two years. According to the Economic Policy Institute, the U.S. steel industry now supports nearly 2 million jobs that pay, on average, 27% more than the median earnings for men and 58% more than the median for women.[1]

Is the steel import problem solved? Not yet. The American Iron and Steel Institute reports that global overcapacity, fueled by foreign government subsidies and other forms of state intervention, was estimated at more than 500 million metric tons in 2019, nearly six times the total steel output of the United States.[2] According to the Organisation for Economic Co-operation and Development (OECD), it grew again in 2020 to as much as 700 million metric tons, due to continued nonmarket investment by China and others, despite substantially lower demand in most markets due to the COVID-related economic crisis.

Have the tariffs hurt steel consumers and downstream producers? Tariffs can sometimes raise costs of subject goods, but by any measure—production, jobs, profitability—steel consumers are doing quite well. Keep in mind that even in steel-intensive products, the value of steel is a small percentage (well under 10%) of the overall cost structure.[3]

Here's an analysis of Federal Reserve Industrial Production data showing steel-consuming industries maintaining steady levels of production after the imposition of Section 232 tariffs:

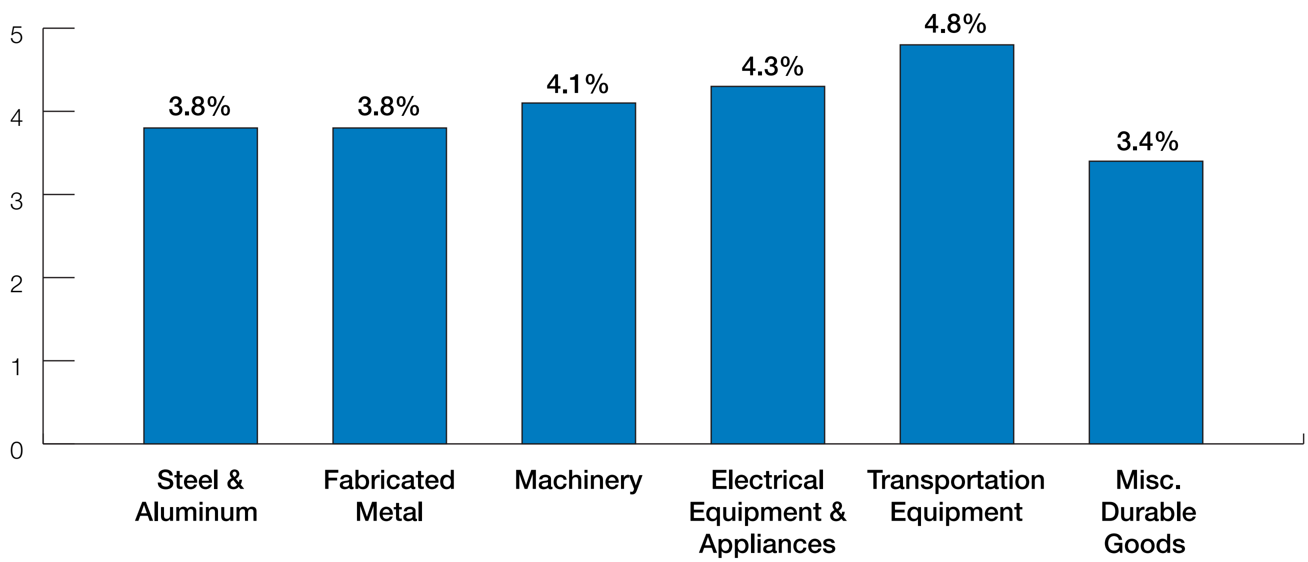
Federal Reserve Industrial Production Indices Show No Indication of Section 232 Remedies Limiting The Production of Downstream Durable Goods Industries



Source: Federal Reserve, available at www.federalreserve.gov

Until the economic effects of the pandemic took hold, major steel-consuming industries added jobs at a healthy clip, comparable to the steel sector, in the first two years after the imposition of the Section 232 tariffs.

Job growth 2018-2019 as a percentage of 2016-2017



Source: Bureau of Labor Statistics, available at www.bls.gov

Finally, earnings reports show that major publicly traded steel consumers such as Caterpillar[4], Harley Davidson[5], and John Deere[6] are doing well and are bullish on the future.

Conclusion:

- Failing to impose tariffs on steel would have led to certain plant closures and large-scale layoffs for an industry already teetering on the brink.
- The tariffs have proven to be effective in reducing and limiting exports, allowing domestic steel-makers to modernize, become greener, and add well-paying jobs.
- The tariffs have also allowed steel consumers to remain at steady production levels, hire new workers, and maintain profitability.
- The larger global steel overcapacity challenge is still growing. Until there is an effective global solution that eliminates harmful overcapacity, the Section 232 tariffs must remain in place.

Endnotes

1 https://www.epi.org/publication/why-global-steel-surpluses-warrant-u-s-section-232-import-measures/

2 https://www.steel.org/wp-content/uploads/2020/10/Preserve-Steel-Tariffs-Fact-Sheet.pdf

3 https://www.epi.org/publication/why-global-steel-surpluses-warrant-u-s-section-232-import-measures/

4 https://www.barrons.com/articles/caterpillars-earnings-smashed-forecasts-there-are-2-key-reasons-51619699427

5 https://www.thestreet.com/investing/harley-davidson-blasts-earnings-forecasts-boosts-2021-guidance

6 https://finance.yahoo.com/news/deere-nyse-rewarded-shareholders-exceptional-062435218.html