



WSJ: Steel's 'Buy America' Ploy

How to turn recession into a depression.

January 7, 2009

The U.S. steel industry has now joined autos and ethanol in the conga line to Capitol Hill. Sort of. Steelmakers aren't seeking government bailout money -- a la Detroit and Wall Street -- but they are pressuring President-elect Obama and the new Congress to stack any stimulus proposal in favor of domestic producers, even though that would inevitably come at the expense of the nation's overall economic health.

You might think that the prospect of a \$1 trillion spending plan that includes significant outlays for steel-intensive construction projects would be enough to placate an industry that has experienced record profits in recent years. Not so. Daniel DiMicco of Nucor, the nation's largest minimill steelmaker, said last week that "what we are asking is that our government deal with the worst economic slowdown in our lifetime through a recovery program that has in every provision a 'buy America' clause."

Such rhetoric may sound patriotic, but in practice it amounts to protectionism that would only hurt American consumers and taxpayers -- and might kick off a trade war the world economy can't afford. To begin with, domestic steelmakers don't produce enough steel to meet U.S. demand. According to the American Institute for International Steel, steel imports account for between 20% and 25% of the U.S. market. The industry has also gone through dramatic changes in the past decade, including bankruptcies and dumping pension liabilities on taxpayers. Most importantly, there has been tremendous consolidation, which eliminated many producers that once made steel no matter what the cost.

The result is a domestic steel industry with a lot of pricing power. A "buy American" provision for steel would make all domestic products made from steel more expensive. It also means that federal and state governments would pay far more for their procurements -- billions of dollars more.

And then there's the problem of what qualifies as U.S.-made. Are we talking about only companies incorporated here, or are we including U.S. subsidiaries of foreign companies?

There are several large steel companies in the U.S. that are incorporated abroad. ThyssenKrupp of Germany is currently building a huge steel processing plant in Alabama that's set to open in 2010 and create 2,700 permanent jobs. Luxembourg-based ArcelorMittal, the world's largest steelmaker, is also expanding its U.S. operations.

At the G-20 summit that convened in Washington, D.C., in November, world leaders agreed to a moratorium on protectionist measures. "We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty," reads the final declaration. "In this regard, within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services." The U.S. signed and spearheaded the declaration. To now mandate "Buy America" would tell the rest of the world it's time to get protectionist too.

On the campaign trail, Mr. Obama's free trade views were hard to pin down. During the primaries he presented himself as a protectionist, but after sealing up the nomination he backpedaled and said he favors free trade with certain help for workers. The President-elect will no doubt come under pressure from Rust Belt lawmakers in particular to give into the steel industry's demands. We hope those who are talking to Mr. Obama about how to avoid a deeper recession are telling him that a global economic downturn is an especially dangerous time to start a trade war.