

April 29, 1982

## **THE STEEL IMPORT CRISIS**

### **INTRODUCTION**

America and Europe are again at war over steel. In March 1980, U.S. Steel filed anti-dumping suits against the producers of the European Economic Community, charging them with selling large volumes of steel in the U.S. at prices well below their cost of production. The Carter Administration, under pressure from its European partners, negotiated an end to the dispute.<sup>1</sup> In exchange for U.S. Steel's dropping its case, the Community provided assurances that future prices of European steel exports to this country would be in line with the "revised" Trigger Price Mechanism (TPM) which monitors steel imports into the United States. Now, a little more than a year later, the American steel industry is again confronting the Europeans with a similar charge.

But in these new cases, filed with the Department of Commerce on January 11, 1982, U.S. Steel has been joined by the other major producers in accusing the EEC and four other governments of engaging in "unfair trade practices." Furthermore, the recent actions allege that dumping and subsidy violations have been committed.<sup>2</sup> In the view of American steelmakers, jobs and needed revenues have been lost to unfairly traded imports. In demanding prompt and effective enforcement of America's trade laws, they view their case as an elemental matter of economic justice. Others would disagree, however. Proponents of "free trade" also view the steel import crisis as a matter of economic justice. But they contend that the culprit is the domestic industry which has refused to modernize and make itself competitive -- not

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<sup>1</sup> See David Fouquet, "US-EC Crisis Management: Steel conflict forces dramatic action," Europe, January-February 1981, pp. 48-49.

<sup>2</sup> U.S. Department of Commerce News, January 11, 1982.

foreign steel. It is up to the Reagan Administration, with the assistance of the Congress, to come up with a resolution to this pressing dilemma.

This Administration has won the praise of the American steel industry -- for good reason. During the presidential campaign, candidate Reagan pledged himself to policies that would end the unhappy period of government-steel industry confrontation. He declared on September 16, 1980: "America needs a modern, world-class industry. My Administration will support government policies which enable us to achieve it."<sup>3</sup> It has. Stretch-outs of environmental and anti-pollution regulations reportedly have saved the steel industry millions of dollars and will, in the future, halt the erosion of jobs.<sup>4</sup> More important for the steel industry are laws which enable it to recover needed capital to be spent in the purchase of the most up-to-date machinery and technology. The "Capital Cost Recovery Act" of 1981 meets that need with its provisions for rapid depreciation of existing equipment and machinery. As a result of these positive developments, steelmakers are confident that they will be able to carry forward their "revitalization program."

American steel producers are equally pleased with the Administration's enforcement of the nation's trade laws. From the onset of the new import crisis last spring, U.S. officials monitored closely the growing flood of European steel imports into the country. Responding to industry charges that the EEC was flagrantly violating its previous agreement not to sell steel in the U.S. market below the benchmark prices of the TPM, the Department of Commerce took the unprecedented step of "self-initiating" its own investigation on November 13, 1981.<sup>5</sup> Shortly thereafter, the International Trade Commission made a preliminary determination that "injury" had indeed been caused to the domestic industry by surging foreign imports. When American steelmakers subsequently filed their own suits on January 11, 1982, the Commerce Department announced the suspension of the TPM. Industry leaders, however did not view the TPM's suspension as retaliation for their having filed cases against U.S. trading partners, as they had when the Department took a similar step under the previous Administration. The final outcome of the new cases remains in doubt. Consultations between Washington and the Community will continue. But for the moment, American producers are pleased with the Administration's responses to their import concerns.

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<sup>3</sup> Steel at the Crossroads: One Year Later (American Iron and Steel Institute, June 1981), p. 10.

<sup>4</sup> See "Environmental Policy for the 1980's: Impact on the American Steel Industry" (Arthur D. Little, Inc., 1981).

<sup>5</sup> See John M. Starrels, "Steel Crisis Adds to Strain in US-EC Ties," The Journal of Commerce, December 8, 1981.

The honeymoon between the Reagan Administration and the American steel industry may be coming to an end, however. The present anti-dumping and subsidy cases will be decided one way or another by early 1983 at the latest. What then? Industry analysts, such as Brookings's Robert W. Crandall (author of The United States Steel Industry in Recurrent Crisis), believe that the U.S. government has come close to exhausting the available policy options vis-a-vis steel.<sup>6</sup> At the same time, the Administration is not confronted with steel's import problems alone. Automobiles, shipbuilding, and textiles, among others, have also been damaged by growing import competition over the past decade. Undoubtedly, changes can be introduced into the operation of those industries which will -- over time -- visibly improve their performance. Clearly, the government has a role in this process of renewal. At the same time, however, the Administration believes that its role in the modernization of the industry must remain limited. This position was unambiguously emphasized by Secretary of Commerce Malcolm Baldrige in mid-1981. Addressing the 89th annual meeting of the American Iron and Steel Institute, the Secretary said:

We can free the economy from the impact of excessive government, we can develop tax practices which encourage capital investment, we can ease the regulatory burden imposed on industry, and we can vigorously enforce the fair trade laws of the United States. We are prepared to do all these. But you must remember that government business cooperation also puts a responsibility on your shoulders.<sup>7</sup>

#### CURRENT INTERNATIONAL PROBLEMS OF THE AMERICAN STEEL INDUSTRY

At one time, the United States possessed the world's most productive steel sector. No longer, observes a leading industry source:

Following World War II, the domestic industry accounted for over half of total world steel production. That position has eroded steadily as new steel industries have sprung from a number of developing countries and existing steel capacity in Japan, Europe and elsewhere has been rebuilt and expanded.<sup>8</sup>

This has been gradual and in no way detracts from the importance of the steel industry to the American economy. It remains

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<sup>6</sup> Conversation with author on November 10, 1981.

<sup>7</sup> Malcolm Baldrige, "Banquet Address," delivered at the 89th General Meeting Proceedings of the American Iron and Steel Institute (Washington, D.C.: AISI, May 28, 1981), p. 65.

<sup>8</sup> Steel at the Crossroads: The American Steel Industry in the 1980s (American Iron and Steel Institute, January 1980), p. 9.

the backbone of the nation's industrial strength, employing a total of 600,000 as well as doing business with hundreds of thousands of other manufacturers (consider automobiles, for example) and suppliers throughout the United States. And despite its current difficulties, the American industry produced 118.7 million net tons of steel last year, making it the largest steel sector in the world after the Soviet Union.<sup>9</sup> Favorable resource endowments of coke and iron; the influence and power of well-organized groups dedicated to the survival and modernization of the domestic industry; and the central role of American steel in the U.S. economy at the very least give the industry a fighting chance to survive in its present form.

Nevertheless, this country's steel sector is in trouble, nowhere more so than from imports. Several aspects of this problem are interrelated:

1) Expanded global production and capacity. Between 1948-1952 and 1973-1977, annual steel production worldwide more than tripled, from 203 to 750 million tons.<sup>10</sup> During this period, spectacular gains were made in virtually every geographic region, with the exception of the United States, which marginally increased its production from 92.3 to 133.3 million tons. In Japan, for example, production jumped from 5.1 to 120.9 million tons, while Western Europe's nearly tripled, from 54 to 152.4 million tons.<sup>11</sup>

Steel-making capacity also soared. In Japan, it went from 46 million tons in 1965 to approximately 159 million tons in 1981, while the European Community's capacity grew from 60-66 million tons to 192-198 million tons. The exception to this pattern was the United States. American steel-making capacity expanded only at a minimal rate -- from 137 to 148 million tons.<sup>12</sup> Though the demand for steel products has declined since the mid-1970s, the world now has a significantly larger capacity to produce it. The result is an excess of steel capacity. According to a recent report by the New York-based consulting firm, Paine & Webber, the non-communist economies have been producing steel at a rate that far outstrips demand. The small excess of 42.9 million tons of steel in 1970 had jumped to 126.5 million tons by 1980.<sup>13</sup>

This crowded world steel market has been prompting many foreign producers to maintain, if not increase, their share of the U.S. market. Both tariffs and non-tariff barriers discourage

<sup>9</sup> DIE ZEIT, Number 3, January 22, 1982.

<sup>10</sup> Unless otherwise stated, net, not metric, tons are being cited.

<sup>11</sup> Steel at the Crossroads, pg. 26. These figures are in "raw steel equivalents."

<sup>12</sup> Frederick G. Jaicks, Chairman, Inland Steel Company, "Remarks on International Steel Trade," October 12, 1981.

<sup>13</sup> World Steel Dynamics (Paine & Webber, et al., September 9, 1981), p. 26.

some foreign steel from entering the United States, as they do in other countries, but the U.S. market remains one of the most open in the world. In 1981, for example, a total of 19,898,000 tons of steel mill products were imported by the U.S., compared with 15,495,000 tons in 1980. By the end of last year, market penetration by imports reached nearly 23 percent, compared with 17.4 percent in December 1980.<sup>14</sup> The Japanese have been exporting about 6 million tons of steel to the United States in recent years. With Japan's steel mills operating below 70 percent capacity in 1981, however, exports to the U.S. could easily increase. They are prevented from doing so by the strong probability of producer action in the United States followed by a call for a "Voluntary Restraint Agreement" (VRA) similar to last year's arrangement limiting Japanese automotive exports to this country. Likewise, the European Economic Community has a strong incentive to export steel to the United States. Indeed, in 1981, the EEC sold more steel in the United States than did Japan -- approximately 6.4 vs. 6.2 million tons.<sup>15</sup> Notwithstanding efforts by the American industry to become more competitive in its own market, excess global capacity will continue to exert pressure on foreign producers to export steel to the United States.

2) America's declining steel competitiveness. As the U.S. steel industry's fortunes have declined, so has its ability to compete internationally. Until the mid-1950s, the United States exported 2 million tons of steel more than it imported. By 1978, this surplus had changed to an 18.7 million ton deficit. While this country imported an average of 1.3 million tons of steel annually thirty years ago, it was importing nearly twenty million tons by 1981.<sup>16</sup> Likewise, America's percentage of world steel exports has decreased. Thirty years ago, U.S. steel exports made up more than 25 percent of the global steel total. The figure for 1977 was 3.7 percent. The United States produced 45.4 percent of the world's steel in 1948, but only 17.8 percent by the late 1970s.<sup>17</sup>

To be sure, part of the American decline is relative. At the end of World War II, the United States was the strongest economy in the world and the main exporter of manufactured goods, including steel. This advantage was bound to fade. Yet certain factors have exacerbated the expected development. Japan's postwar business-government elite, for example, decided to make steel a major cornerstone of the national economy. Japan enjoyed a variety of institutional advantages over a number of countries

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<sup>14</sup> "Import Penetration of American Steel Market at Record High in 1981," AISI, Washington, D.C., January 29, 1982.

<sup>15</sup> Data on EEC and Japanese imports are taken from "Import Penetration of American Steel Market."

<sup>16</sup> Steel at the Crossroads, p. 9; and "Import Penetration of American Market."

<sup>17</sup> Ibid., p. 27.

including the United States. These advantages included significantly greater access to private bank capital to spur investment ("leveraging"); liberal anti-trust policies which permitted the most cost efficient production methods (to put it another way, the Japanese are not afraid of industrial "bigness"); and the absence of restrictive seniority and work rules of labor unions that interfere with productivity improvements.

Crucial to Japan's success is the basic oxygen furnace. The first "BOF" was built there in 1958. By 1963, the six major Japanese firms, accounting for 80 percent of total steel production, were all using it. By contrast, the first major U.S. company to introduce "BOF" was Jones & Laughlin in 1957. As late as 1970, Youngstown Sheet and Tube was just beginning to install what had by then become a dated technology.

Over the past decade, the Japanese have been retiring unproductive facilities at a rate putting both Europeans and Americans to shame. From the end of 1977 through 1980, Japan eliminated the traditional open-hearth furnace, while reducing from 100 to 94 the number of already dated basic oxygen furnaces. Since the late 1970s, Japan has remained ahead of its competition by introducing the most advanced technology, including continuous casting machines, ultra-high power operation, and vacuum-degassing equipment and the increased use of automated systems for many of its steel production processes. The Japanese steel industry today leads the world in the number of blast furnaces with inner volumes of more than two thousand meters.

As a consequence of these technological advances -- frequently pioneered by other countries, including the United States -- Japanese gains in steel-making productivity have been equally dramatic. In 1980, for example, its steel output rose by 4 percent (to 111 million tons) while labor input decreased by 2.2 percent. Overall labor productivity doubled in Japan's steel industry in the last decade, in contrast with a modest 16 percent in the United States over the same period. These productivity gains have been stimulated by "volunteer work group" (Jishu Kanri) activities which encourage employees to devise practical solutions to production problems.

Yet neither technology nor high worker input entirely explain the present gap between the Japanese and Americans in the manufacture of steel. Among the other factors are that the average hourly earnings in the United States are much higher than in Japan (\$20.00 vs. between \$12.50 and \$8.50). Productivity and technology are nevertheless the factors that are considered by many analysts to be decisive in turning around the \$8 per ton production cost advantage which the United States enjoyed in 1965 to Japan's present advantage of between \$90 to \$100 over the United States. Unlike the Western European steel industry, the Japanese have been able to achieve this comparative advantage without government subsidies. For this reason, Japan's share of

the U.S. steel market is not currently being legally challenged by domestic producers.<sup>18</sup>

3) Less developed country (LDC) exports to the U.S. market. Since the early 1960s, a number of LDCs have established their own steel-making facilities, in most instances to decrease dependence on the established European and Japanese suppliers. Some advanced LDCs even have become exporters.

The January 11 suits filed by American producers name only one LDC, Brazil, whose exports of steel mill products to this country reached 547,000 tons in 1981. The most important LDC steel exporter to the United States is South Korea whose U.S. sales reached about 1.2 million tons last year. In general, more advanced LDCs, such as Brazil, India, Mexico, South Korea, Taiwan, and Venezuela, have two major advantages over the U.S.: their labor costs are from one-fifth to one-tenth the American rate; and government subsidies are substantial. In addition, South Korea and Taiwan have some of the world's finest production facilities. But these producers do not yet seriously challenge the European and Japanese suppliers to the U.S. because they do not produce the pipes, tubes, and other sophisticated steel products for which there is strong import demand.

4) The European Export Surge. Between 1980 and 1981, the European Economic Community nearly doubled its steel exports to the United States, from 3,870,000 to 6,482,000 tons.<sup>19</sup> Advocates of "free trade" argue that this export surge has been caused by a rising dollar and a strong American demand for European steel. Industry advocates retort that the Europeans are massively dumping and subsidizing their steel exports to the United States. The Reagan Administration is attempting to determine the validity of these contending arguments.

a) The dollar and import demand. Do changes in the dollar's value affect steel trade patterns? In some cases they do, in other cases they do not. For the EEC and a number of other exporters (Canada, for example), changes in the dollar's value may affect the volume of steel exports to the United States. Brookings's Robert W. Crandall maintains, for example, that a strong dollar serves to reduce the price of imported goods, including steel; when the dollar begins to lose value, steel imports will become more expensive and demand for them will fall accordingly. While this argument appears to hold over short periods of time, it does not explain the rises and falls over the past decade in European steel exports to the U.S. If it did, it would have predicted record low EEC steel shipments to the U.S.

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<sup>18</sup> For a recent assessment of the Japanese industry's competitive strengths, refer to "Japanese Steel Industry: A Study in Modernization and Productivity" (Kidder, Peabody & Company, December 4, 1981).

<sup>19</sup> "Import Penetration of American Steel Market."

in 1978 -- when the dollar was drastically undervalued. In fact, the Community's 7,463,000 tons of steel shipped to the United States in that year were nearly one million tons higher than in 1981.<sup>20</sup>

b) "Unfair trade practices". Over the past decade, the U.S. and the EEC, with Japan, have attempted to reach agreements barring unfair trade practices. The culmination of these efforts was the Multilateral Trade Negotiations (1973-1979). The MTN concluded with a series of agreements, including "codes of conduct" to prevent dumping and subsidization in international trade.

Dumping is price or cost discrimination. Either practice occurs when an exporter sells goods in the home or export market at "less than fair value." American steel producers have charged the Europeans with having committed the latter offense. The "anti-dumping" code provides a mechanism to be used by aggrieved parties in filing for relief: a finding that "dumping" is in fact taking place, and a separate determination that "injury" to the domestic industry has occurred. Dumping without injury is not considered to be a sufficient basis for awarding relief. In the U.S., these two functions are performed by the Department of Commerce and the International Trade Commission, respectively. If the U.S. government, or its European counterpart, finds in favor of a domestic industry, anti-dumping duties are then assessed against the foreign exporter.

Subsidies are grants of public assistance to industry. American manufacturers insist that the European Community lavishly subsidizes its industrial sector. Such practice, they argue, allows individual EEC members to sell their goods in the U.S. at artificially low prices. Like the anti-dumping code, both "subsidization" and "injury" have to be found before duties (in this instance, countervailing duties) are assessed against foreign exporters.

As signatories to both codes, the United States and the European Community have attempted to implement them during a period of increased trade tension between themselves. The most recent confrontation over steel highlights these tensions.<sup>21</sup>

U.S. producers assert that the Western Europeans have flagrantly violated the MTN dumping and subsidy codes. Indeed, much of the steel entering the United States -- at least between April and December 1981 -- would not have entered at competitive prices. At a minimum, the present downturn in steel demand in the European market clearly might be prompting producers to export unfairly

<sup>20</sup> Data are taken from Kiyoshi Kawahito, "Japanese Steel in the American Market: Conflict and Causes," 1981, p. 232.

<sup>21</sup> See John Starrels, "Playing by the Rules," Europe, March/April 1982.

traded steel to this country -- even if it contravenes U.S. trade laws.

Commenting on the relationship between subsidization and steel exports, an American Iron and Steel Institute memorandum further states:

...[T]his enormous pressure to dump, and the resulting injury to the United States, are severely exacerbated by the willingness of foreign governments to subsidize continuing heavy losses in the steel industry to protect employment. And foreign government subsidies, a critical problem for the U.S. industry, are not going to end soon. A hard-fought battle among European governments on this subject resulted in an agreement to phase-out subsidies by 1985. The outcome of the agreement itself is highly uncertain and in any case the next four years are likely to see continuing massive steel subsidization in Europe and elsewhere.<sup>22</sup>

The domestic industry, moreover, insists that dumped and subsidized European exports are directly undermining its "revitalization program." Republic Steel's Chairman William DeLancy puts the matter succinctly:

Our principal message...is this: Functioning as we do in a private enterprise economy, our ability to build for the future is totally dependent upon our present and future profitability. We are, right now, being seriously hurt by a flood of foreign steel, much of it coming from heavily subsidized companies. We have to tell you that this constitutes a clear and present threat to our ability to undertake the rebuilding programs which are so important to our companies, our employees, and our customers.<sup>23</sup>

Trade law enforcement and steel revitalization are thus of one package in the view of industry leaders.

Domestic producers and U.S. trade officials agree that the January 1982 petitions against the EEC present the sternest test to date of Europe's willingness to abide by the MTN anti-dumping and subsidy codes. If American steel wins its case, dumping and countervailing (subsidy) duties will be applied against European imports.<sup>24</sup> Perhaps Washington and the EEC will be able to negotiate an end to the crisis before then, as occurred in September

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<sup>22</sup> AISI Memorandum, November 2, 1981.

<sup>23</sup> Statement of William J. DeLancey before Senate Steel Caucus, November 2, 1981.

<sup>24</sup> The range of duties being demanded by American producers varies. U.S. Steel, for example, is demanding between \$20 and \$300 a ton for dumping, \$50 and \$300 a ton for subsidies.

1980. Such a prospect appears unlikely for the moment, however. Observers in the United States further agree that, unless the EEC is able to master its own steel crisis, future actions by American producers against Community steel imports are a foregone conclusion.

5) Europe's Steel Crisis. The EEC's steel industry is in serious trouble. In the past eight years, 250,000 jobs have been eliminated. Regions dependent on the industry for their well-being have been devastated.<sup>25</sup> In some instances, as in Belgium, governments have been toppled.

Where the Community produced 156 million tons of steel seven years ago, it barely produced three quarters of this amount in 1981. Problems began to emerge as long ago as the late 1960s. Nevertheless, many of the EEC's producers ignored the trend. Between 1968 and 1975, the Italian firm of Finsider lost about \$200 million, for example, yet increased capacity by 50 percent over this period. Similar cases exist in most other European countries. By the mid-1970s, as employment and profits began to fall, EEC producers finally realized that they were in trouble. Fed by generous subsidies, however, most continued to add capacity.

In October 1980, the EEC's Council of Ministers at last proclaimed a "Manifest Crisis" in their steel industry.<sup>26</sup> Noting that "voluntary restraint measures" had failed, the Community decreed an end to industry subsidies by 1985. The Council of Ministers further established production quotas for all large steel producing firms. As a result, most European Community steel producers (except Italy) have cut back on uneconomic capacity over the past year.

Denmark and Britain appear serious in their efforts to cut back existing capacity. Acting on their own, German producers have been reducing domestic production in steel -- from approximately 59 million tons in 1974 to 46 million tons in 1981. Overall, however, investment plans call for a modest 3 percent drop in EEC steel-making capacity over the next several years. As the Economist says: "Europe still endeavours to produce almost as much steel as in the last boom in 1974, when competition abroad was less keen and the world still wanted to import steel from Europe."<sup>27</sup> The result: gluts of underpriced and subsidized steel probably will continue to inundate the world market, including that of the United States.

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<sup>25</sup> Robert Ball, "Europe's Durable Unemployment Woes," Fortune, January 11, 1982, p. 72.

<sup>26</sup> European Community News, No. 29/1980, November 5, 1980.

<sup>27</sup> The Economist, December 21, 1981, p. 15.

## ADMINISTRATION EFFORTS TO AMELIORATE THE STEEL IMPORT PROBLEM

Until the late 1950s, imported steel counted for a negligible portion of the domestic market. Then the U.S.'s comparative advantage began to decline. In the late 1960s, American producers became alarmed over foreign penetration which by then had reached about 13 percent. Responding to these concerns, the Nixon Administration negotiated a voluntary restraint agreement with European and Japanese producers. The agreement was renewed in 1972 and remained in force through 1974 when it was allowed to lapse.

In the wake of anti-dumping petitions filed against Europeans and the Japanese by domestic producers, the Carter Administration in late 1977 announced a comprehensive relief program for the industry. From this came the Trigger Price Mechanism.<sup>28</sup>

Though there have been two TPMs since the system was introduced, the principle remains the same. The TPM is a formula that sets import price levels based on production costs in Japan -- deemed the world's most efficient producer. Unlike the VRAs, the TPM does not set an absolute quota on foreign imports. Rather, it monitors and analyzes steel imports to detect possible dumping and, since October 1980, subsidy violations. Whenever the TPM detects sales below the benchmark prices of the Mechanism, the Commerce Department (previously the U.S. Treasury) examines the import for evidence of unfair trade practices.<sup>29</sup>

The "revised" Trigger Price Mechanism was an outgrowth of the October 1980 truce between Washington and Brussels. It now contains a "volume trigger" which "will under certain circumstances, accelerate government review of import surges and, at certain operating rates, result in the examination of import transactions to determine if they are at less than fair value or are subsidized."<sup>30</sup>

During fall and winter 1981, industry spokesmen frequently voiced frustration with the TPM, labelling it "ineffective" and worse. Certainly it was not halting the flood of imports. Domestic producers, nevertheless, support the TPM. It provides them, for example, with a price monitoring system. Moreover, the Trigger Price Mechanism lends an element of predictability to the

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<sup>28</sup> See Robert W. Crandall's brief description of the background surrounding the introduction of the TPM in his The United States Steel Industry in Recurrent Crisis (Washington, D.C.: The Brookings Institution, manuscript, August 1980), pp. 1-3.

<sup>29</sup> As previously noted, the original TPM was suspended by the Department of Commerce in March 1980. The "revised" TPM was likewise suspended by the Department last January -- in both instances, after domestic producers filed massive suits against the Community.

<sup>30</sup> Steel at the Crossroads: One Year Later, p. 11.

administration of U.S. import laws. Domestic as well as foreign manufacturers benefit from this. And the nation's steelmakers also know that the TPM represents the limit of what this government will do to address the industry's ongoing import problems.

#### POLICY ALTERNATIVES AND DANGERS

On the surface, the American steel industry is very pleased with Reagan Administration enforcement of import laws. For good reason, U.S. Steel's Chairman David M. Roderick speaks for his colleagues in praising the Department of Commerce for its readiness to listen to the industry's import concerns -- and to act on them. Baldrige with U.S. Trade Representative William Brock, has made it clear to the Europeans that they must demonstrate more understanding for the industry's domestic problems than in the past.<sup>31</sup> But the Reagan Administration is looking primarily to industry to improve its own fortunes. Indeed, if the industry fails to take action in this area, its relationship with the Administration could change for the worse.

American steel leaders know that they need to carry out their ambitious "revitalization program" to retain credibility. Currently, American producers enjoy a large amount of public sympathy. Evidence exists that the EEC and Japan resort to questionable -- if not blatantly illegal -- trade practices in their dealings with the United States. Nor has their tepid response to Washington's call for a unified economic response against Soviet aggression advanced the cause of "interdependence" in the U.S.

Moreover, a number of objective studies of the American steel industry conclude that domestic producers are able to match the international competition on a product-by-product basis. The key word is able. In part, U.S. manufacturers are correct in arguing that our comparative advantage has been lost because the U.S. lacks the favorable government-industry climate which encourages industrial innovation in other countries -- notably Japan. But the responsibility for the decline of U.S. steel must also be placed on the shoulders of the nation's producers. For they have failed to respond to the challenges facing their industry.

Wages paid to the steel industry's workers not only are higher than those paid their counterparts in Europe and Japan, they are 20 percent higher than the average wage paid to workers in the rest of the U.S. manufacturing sector. Wage boosts have been awarded to workers even during a period of lagging productivity.

The American steel industry must modernize to survive. The Reagan Administration has provided U.S. producers with appropriate

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<sup>31</sup> See New York Times, December 16, 1981.

tax incentives geared to encourage capital formation, increased research and development, and necessary investments in up-to-date technology. Yet there are signs that the industry's leaders have lost confidence in their own economic destiny. When the major steel-producing corporation of this country, U.S. Steel, pays \$6.3 million for the purchase of an oil company, the Administration and the public have the right to ask whether the capital needs of the industry are as pressing as they had been led to believe. If the nation's steelmakers are not prepared to invest most of their available capital in the modernization of their industry, the import competition battle will be deservedly lost.

## CONCLUSION

Over the past decade, a number of America's key manufacturing sectors -- automobiles, shipbuilding, textiles and steel -- have been in decline. Administration policy toward steel thus must also address the broader challenge of restoring America's industrial base. Integral to any such strategy is a sound posture toward the conduct of U.S. international trade policy.

The Reagan Administration has recognized that basic industries need time to modernize. Despite misgivings, the White House negotiated an automotive VRA with Japan last year, while agreeing to honor the government's loan commitments to Chrysler. The Administration has demonstrated a similar readiness to assist steel.

The Reagan Administration is also committed to a free market economy, believing that therein lies the guarantee of long-term economic success. The White House thus insists that the steel industry must decide whether it will survive or not. This decision is not the government's, though Washington can ensure optimal fair market conditions within which the industries ought to be able to thrive.

The Administration must also manage trade relations with the major allies. Protectionist pressures are on the rise throughout the West. Stagnant growth, mounting unemployment, and large payment imbalances force governments to look inward. During such periods of difficulty, the United States must insist that the principle of free trade is balanced by fair trade. This means that U.S. import laws must be rigorously enforced.

At the same time, however, the Reagan Administration must be wary of retaliatory proposals which seek to penalize the Europeans and the Japanese for real or imagined violations against U.S. producers. So-called reciprocity proposals, for example, appear attractive on the surface, but contain self-destructive impulses that must be controlled. Warns the Wall Street Journal, policies of an export retaliatory, or import restraint, nature "would raise American prices, lower competition and innovation and cut off our nose to spite our face."<sup>32</sup>

<sup>32</sup> The Wall Street Journal, February 4, 1982.

The Reagan Administration would be better advised to carry the present anti-dumping and subsidy investigations to a conclusion. Only then could the U.S. test the strength of its trade laws and the willingness of the Europeans to abide by them. Adoption of updated "beggar thy neighbor" trade policies (such as those being advocated by reciprocity enthusiasts) would only weaken badly needed international support for the kind of competitive, robust economy that America needs -- for the preservation of free enterprise abroad as well as at home.

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