

Speaking of Business

By LINDLEY H. CLARK JR.

Helping Steel

No one can deny that the steel industry has its problems. As President Carter stressed, however, those problems involve much more than imports.

The oldest problem, to put it kindly, is management lethargy. During the depressed 1930s the industry had little market and little money to encourage innovation and increased efficiency. During World War II and for years thereafter, however, the industry could sell all the steel it could make, no matter how inefficiently it might be produced.

Some of the industry's plant was close to a century old. Not much, to be sure. But you could always tell when the industry had reached full capacity: Some of the antiquated facilities were fired up again.

But times changed. Europe and Japan rebuilt their steel industries, in part with U.S. help. Eventually foreign steelmakers began expanding sales to the U.S. Belatedly, the U.S. industry began to modernize, adopting new technologies that had been available for years.

President Carter irritated steel men at a press conference late last month when he said, "We have obviously some elements in the steel industry where the plants themselves are older; they're not quite as efficient as some of the more modern plants overseas."

Afterward, Lewis W. Foy, chairman of Bethlehem Steel Co., said he found it difficult to understand the President's comment when, in fact, the industry "has poured more than \$21 billion into capital expenditures in the last 10 years alone." Whether the amount was too little or too late, or both, it hasn't solved the problem.

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What is the solution? The industry obviously thinks the first step should be restrictions on imports. The administration is encouraging steelmakers to file dumping complaints with the Treasury, an action which could lead to duties on offending foreign companies if dumping is taking place.

"Dumping" in this context means that a company is selling in a foreign market for prices lower than its costs. Last week the Treasury tentatively found that five Japanese steelmakers were dumping carbon plate in the U.S. This is only the first step, but U.S. firms said they were encouraged.

In any case, several dumping complaints have already been filed with the Treasury, and the government in time will act. If there is to be a restriction on imports, this approach would be preferable to another alternative—"voluntary" quotas.

Actually, the administration may have a difficult time denying such quotas to the steel firms. Voluntary restrictions already

quite familiar with the voluntary quota idea. Two years ago, when the European Common Market was disturbed by a rise in imports from Japan, market officials worked out a restraint agreement.

Since that time, however, both Europe and Japan have stepped up their steel sales to the U.S. So the unappetizing prospect now is that major steel firms around the world, under governmental sponsorship, will get together and cartelize the world.

A cartel, of course, offers no incentive to its members to increase their productive efficiency; they are guaranteed a certain market no matter what. Prices move where the cartel wants them to; extra revenue goes to the members.

Higher import duties, on the other hand, leave foreign producers an opportunity to compete by cutting costs—and prices. Any extra revenue generated by the import curb goes into the U.S. Treasury where, conceivably, it may be put to some useful purpose.

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Remember the oil import quotas? They were instituted during the Eisenhower administration to protect the incomes of domestic oil producers. For several years we carefully refrained from buying more than specified amounts of that cheap foreign oil.

The reward of our forbearance was supposed to be a stepped-up search for domestic oil that would head off future energy shortages in the U.S. In the meantime several U.S. firms were, by governmental dispensation, given tickets to buy specified amounts of that cheap foreign crude. The importers, not the Treasury, profited from that transaction.

Admittedly this all seems somewhat more ridiculous now than it did at the time. But either then or now, the quota idea makes no real economic sense.

There are going to be governmental studies of the steel industry to try to assign blame and assess possible remedies. It seems unreasonable that an industry where prices (even now) are low relative to weight and shipping costs are high relative to price cannot compete successfully with producers located across the oceans.

Part of the trouble is not peculiar to steel. Government tax policies discourage replacement of outdated production facilities; depreciation deductions, for instance, are based on historical cost, not the true, inflated cost. In the admirable effort to protect our environment, moreover, government may be paying less than adequate attention to a need to sustain employment and income.

But neither steel nor television, shoes or any other industry has a unique claim on the nation's resources. When a government sets up restrictions that offer some benefits (at least, short-term) to the participants in a particular industry, it has an obligation to prove that these restrictions, on balance, offer the general public more benefits than costs.

With import quotas or import duties, though, costs and benefits are hard to assess. So if the government decides on special help for steel, there is another method it might want to consider: open and direct federal subsidies.

That's not an approach that will appeal to very many people. But quotas or duties impose hidden costs on Americans as they are forced to pay higher prices. If we want