

In sum, experience makes it abundantly clear that an industry like steel, dominated by slothful giants, will lead neither in technological invention nor innovation. To give such an industry artificial protection from competition would merely serve to reinforce its natural disposition to lead the quiet life and to let well enough alone.

APPENDIX VIII

STEEL IMPORTS AND THE U.S. BALANCE OF PAYMENTS

In this appendix, we review the relation between steel imports and the balance of payments position of the United States. We propose to examine the effect that the domestic steel pricing and other policies have had on the balance of payments, and what the consequence might be of artificial restrictions on the import of steel products.

In recent years, steel imports have accounted for a larger share of domestic consumption than in the past, particularly since 1959. At the same time, steel exports have shrunk. The two phenomena are related, and elsewhere in this presentation we have demonstrated the crucial role played by the upward rigidity of pricing¹ and technological backwardness. It is, therefore, possible to regard any difficulties the steel industry may be facing in its international economic relations as to a large degree self-inflicted. This conclusion is not, however, sufficient to dispose of the balance of payments problem. The American Iron and Steel Institute, for instance, insists that "the most relevant trade factors are the inflow and outflow of the primary products of the steel industry itself" (*Staff Study*, p. 336), and by implication that the unfavorable balance of trade in steel is strategic in causing the unfavorable balance of payments for the U.S.

There are several points that must be made with respect to the effect of steel imports on the balance of payments. In each case, it appears that the imports of steel products cannot be considered a serious threat to the United States. First, it is manifestly improper to assess the effect of steel imports considered in isolation without also examining the export and import of products containing steel. When the end-use items are taken into consideration, the steel balance of trade, even though it remains "unfavorable", is nevertheless sharply cut. Table 34 of the Senate Finance Committee *Staff Study* shows that for 1966 the net outflow was reduced from \$889 to \$486 million. This is approximately 2 per cent of the total value of merchandise imports in 1966. For 1967, the comparable figure is not available, because the AISI has not made public its estimates of the value of steel in end-use exports, but in view of the fact that the imports of steel in dollar value were lower in 1967 than in 1966, and the total merchandise trade exports were higher, it is extremely unlikely that the so-called "unfavorable balance of trade" for steel exceeded \$486 million in 1967, and it may very well have been less.

A further adjustment is sometimes made by those attempting to isolate the impact of steel imports on the U.S. international position. Since we are not importers of iron ore and concentrates and manganese ore and concentrates, and export scrap and coal and coke, a balance of trade can also be constructed for steel-making raw materials. It was favorable for the years 1963, 1964 and 1965; in 1966 a slight deficit of \$3 million was registered. In 1967, the balance again was favorable: imports totaled \$659 million and exports \$845 million, yielding a net inflow of \$186 million.

The justification for taking into account the end-use steel products should be plain enough. If domestic steel is used, then to the extent that these sales bring in foreign exchange, the effect is the same as though the steel had been exported directly. If the product uses imported steel, then to the extent the import is re-exported the loss of exchange by purchase of the imported steel is offset by its subsequent sale to foreigners. The raw materials for steel should be taken into account because, if the production of steel in the U.S. requires that raw materials be imported, exports can not be counted as a net gain of foreign exchange, nor can domestically produced steel consumed here be regarded as a complete import substitute. Therefore, all raw materials imported must be

¹ "This emphasis on competitive price cutting is typical of the policies of foreign steel industries when exporting. In the United States the practice has still been—with the exceptions, such as, unpublished discounts and freight absorption—to maintain prices and to adjust output to demand." *Steel Imports*, Staff Study of the Senate Committee on Finance, 90th Cong., 1st sess., 1967, p. 120 (hereinafter referred to as *Staff Study*).