# Trigger Price Mechanism: a case study

"The only thing the trigger price mechanism has triggered is inflation"

This was how one steel firm representative in the New York City area described the effects of the Carter Administration's trigger price mechanism. Under TPM, imported steel cannot be sold below an artificially high price—set by the U.S. Treasury—without "triggering" an "antidumping" suit against the foreign steel mill.

"But the TPM is really a joke," the executive went on. "It has simply become a method under which American steel mills just raise prices to suit themselves. And it has not kept foreign imports out—1978 was their best year yet.

"Nobody in Treasury knows anything about steel, so Undersecretary Solomon just went to big American steel companies, which can afford a very expensive lobby in Washington, and they probably wrote the TPM for him. It's been great for them, but it's caused stagflation for everyone else....I could understand a real quota to keep foreign steel out, but not this."

The TPM, activated by the Carter Administration in January 1978 under the guise of fighting "cheap" foreign steel, gave American steel companies the opportunity to raise their selling prices by *$50 to $60 per ton* on average.

What this means for the American citizen is that every time he purchases a manufactured product using steel, everything from a toaster to a car to a house, he has to pay an additional $50 to $60 per ton over what he would have paid in 1977. And this surtax did not go toward capital investments in the steel sector, but funded windfall profits for steel companies, nonproductive antipollution devices in steel mills, and diversification out of basic steel into such speculative, quick profit areas as real estate, as well as chemicals and textiles.

Steel executives in major companies like U.S. Steel, who swear that the TPM is the only thing saving them for cutthroat competition with Japanese steel mills, should realize that using artificially high protective prices as tariffs is nothing new, nor would the resulting economic disaster for American steel be unprecedented. During the 1920s and 1930s, backward British industry, the home laboratory for Fabian economist John Maynard Keynes, followed his advice and created price-fixing cartels with alleged anti-import devices like the TPM. The present bankrupt, nationalized, and inefficient state of British Steel Corporation, or British Leyland, should be enough of a warning.

### Get the Japanese!

By 1977, the U.S. steel sector had reached the point of a self-created collapse. Because of Japan's superior postwar investment strategy, Japanese steel costs were significantly lower than either American or EEC costs, and American manufacturers were more than willing to import Japanese steel that, in many cases, cost $100 less per ton to produce than American steel. Except for basket cases like British Steel, most European steel companies made steel more efficiently and cheaply than U.S. mills, until the oil price hike of 1973 and the steel bust of 1975 destroyed their markets and marginal advantages.

Predictably, U.S. steel imports rose from being 6.1 percent of steel consumption in 1959 to 13.5 percent in 1975 and 14.1 percent in 1976. By 1977, after several years of the present depression had wiped out the domestic American postwar boom in construction, cars, and highway construction (the three major steel-consuming areas), American mills latched on to a protectionism campaign aimed at the Japanese.

### TPM

Under TPM, the trigger price or minimum price for imported steel was pegged far above the actual cost of producing steel in Japan and shipping it to the U.S. Although Japanese companies stated that in 1976 they were able to produce and ship basic carbon steel to the U.S. for $285 a ton, the trigger price was set at $333 a metric ton for commercial quality cold rolled sheets, the largest import category, for the first quarter of 1978. From that point on, Japanese steel import prices were to be much closer to American
American sales. Any prices below the TPM, which is revised quarterly, would immediately "trigger" dumping investigations by Blumenthal's Treasury. Because of the steady appreciation of the yen over 1978, trigger prices rose by around 30 percent. By the first quarter of 1979, the trigger price for cold rolled sheets had been hiked from $333 to $436 a ton.

European nations did not object to the treatment dealt to the Japanese because they realized, and British Steel was one of the first to catch on, that this artificially high trigger price allowed them to legally "dump" steel at a price that—although high by Japanese standards—was still lower than some of their production costs. In other words, they could no longer be undersold by the Japanese in the American market!

But, instead of stopping foreign steel dumping in 1978, the trigger price did the exact opposite! Japanese steel exports to the U.S. did decrease by 17 percent, but EEC steel exports increased by 10 percent, while Canadian, British, and Third World steel exports to the U.S. skyrocketed.

*—James Cleary*