THE HILL

Déjà vu all over again: Trump's tariff redux

BY FORMER REP. DONALD MANZULLO (R-ILL.), OPINION CONTRIBUTOR — 02/22/18 05:40 PM EST
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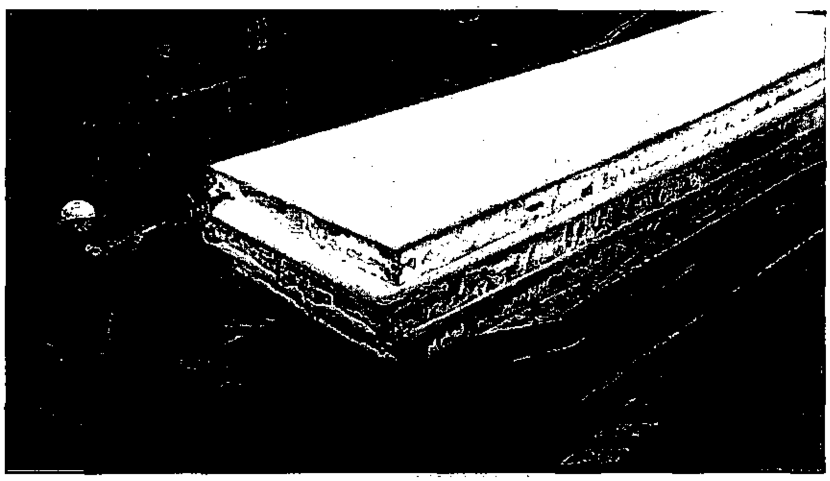
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Sen. Lamar Alexander (R-Tenn.): "I hope you will look carefully at what President George W. Bush did in 2002 when he imposed 30 percent steel tariffs... according to the auto manufacturers, they lost more jobs than exist in the steel industry."

President Donald Trump: "Lamar, it didn't work for Bush, but nothing worked for Bush (Laughter). It didn't work for Bush but it worked for others." (Feb. 13, 2018)

On March 5, 2002, President George W. Bush announced his decision to impose tariffs as high as 30 percent on certain imported steel products as a temporary safeguard measure to give U.S. steel producers time to adjust to a "surge" in foreign steel. Countries that had an existing free trade agreement (FTA) with the United States (Canada, Mexico, Israel, and Jordan) were exempt.
Almost immediately thereafter, I was contacted by small steel-using manufacturers who were caught in a vise between higher prices for their basic raw material of steel and demands by their larger customers (Original Equipment Manufacturers) to find ways to cut costs even further. Raw materials are not an incidental cost item – for many manufacturers, steel represents a significant share of the final price of their product. For some of my manufacturing constituents, they contacted domestic steel producers for price and quality comparisons. For companies that received a response, they were either turned down

because their proposed order was too small, the quoted price was unrealistically high, or the specifications were not up to their standards.

The availability of high quality steel at globally competitive prices rapidly became a pressing national concern in 2002 when the U.S. manufacturing sector was contracting due to other factors. Back then, I was the chairman of the House Small Business Committee. Dozens of small steel-using manufacturers from around the country frantically contacted my committee office with their desperate pleas for relief. President Bush's decision caused prices to quickly rise for both imported and domestically produced steel. I held two hearings on this topic that included testimony from management and labor of steel-using manufacturers sitting side-by-side decrying the impact of the steel tariffs on their place of employment. One United Steelworkers union representative succinctly asked, "Why are jobs at steel mills more important than the 250 jobs of the union associates of the workforce at [my company]?" These hearings, meetings, phone calls, and pressure from other members of Congress, resulted in the granting more than 700 exclusions from the higher steel tariffs in 2002.

Nonetheless, the damage was done. More jobs were lost in steel-consuming sector than were employed in the entire U.S. steel industry at the time as some companies retrenched their workforce or as OEMs bought similar products from their foreign competitors that incorporated globally-priced steel. Fortunately, the higher tariff on steel ended prematurely on Dec. 3, 2003, which enabled many of these small manufacturers to recover and add back some workers.

It appears that the U.S. is about to embark on a similar course of action with the recent issuance of the Commerce Department report on the effect of imports of steel on U.S. national security that provides the president with the option to raise tariffs or impose import quotas to bolster the domestic steel industry. The Bush approach in 2002 was to raise steel prices in order to produce enough revenue to invest in the restructuring of the U.S. steel industry. However, in contrast to 2002, steel prices are now at a 7-year high and employment in the U.S. manufacturing sector has increased by nearly 200,000 jobs during the past year. If President Trump agrees to raise tariffs or impose quotas, the U.S. government would be in an odd position of setting production targets for one segment of the U.S. manufacturing sector. Plus, there will be a repeat of 2002 when dozens of steel-using manufacturers spent an exorbitant amount time and resources lobbying for relief from the higher tariffs just to stay in business.

There is no doubt that having a viable steel industry is vital to the U.S. manufacturing base. Nevertheless, it is also important to insure that one manufacturing sector does not gain preferential treatment over others, particularly in light of the broad definition of "national security" that is contained in the Commerce Department report. Paraphrasing the

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steelworker union representative who testified before my panel over 15 years ago, no American manufacturing worker should be valued higher than another manufacturing worker, particularly if that individual is directly employed in the U.S. defense industrial base. President Trump said at a recent meeting on trade with congressional leaders that "you may have a higher price, but you're going to have jobs." However, the basic laws of economics cannot be waived – experience has shown that a broad application of higher tariffs will lead to higher prices, which, in turn, will lead to jobs losses in other U.S. industrial sectors. Higher tariffs or quotas on steel won't work this time either.

Former Congressman Donald Manzullo served in Congress from 1993-2013 and is the former Chairman of the Subcommittee on Asia and the Pacific of the House Foreign Affairs Committee and former Chairman of the House Small Business Committee. Currently, he is the President and CEO of the Korea Economic Institute of America (KEI), a public policy educational organization dedicated to promoting understanding and dialogue between the U.S. and South Korea. KEI is registered as a foreign agent of the Korea Institute for International Economic Policy, a public policy research institute funded by the Government of the Republic of Korea.

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