**Bush's Brilliant Strategy on Steel Tariffs: He Wins by Losing**

By: Andrew Brod

Brod, Andrew (2003). Bush's Brilliant Strategy on Steel Tariffs: He Wins by Losing. *Greensboro News & Record*, November 30, 2003



**Article:**

When the Bush administration imposed a tariff on imported steel in March 2002, I was astounded. The move was so brash, so baldly protectionist. I thought it was short-sighted, but I've changed my mind. I now think that it was brilliant. And if I'm right, then there may be implications for our friends in the furniture industry who are pursuing their own strategy to restrict imports.

The most striking thing about President Bush's steel tariff was the absence of any attempt to justify it on such grounds as protecting the environment or enforcing labor standards. The president wanted the 30% tariff placed on steel imports simply because he wanted it. Steel imports were growing and the American steel industry was hurting.

Observers noted at the time that the chief beneficiaries of the trade protection would be steel companies and workers in the swing states of Pennsylvania and West Virginia. In the 2000 election, Bush lost the former and won the latter, both narrowly, and the conventional wisdom was that he eked out the win in West Virginia because former President Bill Clinton refused twice to impose trade barriers to protect domestic steel.

Back in early 2002, I warned in this space that other countries would retaliate against our steel tariff by imposing tariffs on our exports. I noted that the steel tariff contradicted Republicans' traditional support for free trade. I exclaimed that "protectionism is back!"

Even so, I figured that the steel tariff had no chance of passing muster with the World Trade Organization. And sure enough, three weeks ago a WTO appeals panel ruled that the tariff violates the trade rules to which the U.S. agreed when it helped establish the organization in 1995. Therefore the U.S. must remove the steel tariff.

The news media have presented this as a moment of truth for President Bush, and a potential political set-back. Will he defy the WTO? Will he be able to "save American jobs"? And yet the media have also noted that if the president keeps the steel tariff in place, the European Union and other countries would be authorized to place punitive tariffs on American-made products. Observers in North Carolina no doubt noticed that textile and apparel products were featured prominently in that "hit list" of products.

But wait a minute, I thought to myself. Why would the president defy the WTO? It would worsen a growing trade dispute at a time when his administration needs friends abroad. In contrast, accepting the ruling would end the dispute *and* give him political cover at home. It dawned on me that the president and his advisors must be thrilled with the WTO's ruling. The president will make some angry noises about the WTO but ultimately remove the steel tariff. He may have done so already by the time this column is printed.

The ruling means that the president can tell steel workers in Pennsylvania and West Virginia that he did all he could for them. First he imposed the tariff, and then he fought the WTO when it ruled against it. But ultimately, faceless bureaucrats in Switzerland thwarted him in his noble efforts. Blaming foreigners generally plays well on the campaign trail.

Second, the WTO ruling insulates the president to some degree from the righteous anger of industrial users of steel. Some damage has been done already, because the tariff raised steel prices and added to the woes facing the troubled American manufacturing sector. But now that sector is beginning to show signs of renewed life. As the 2004 election approaches, what better way to encourage growth and employment in manufacturing than to bring about falling steel prices? To be sure, those prices rose in the first place due to Bush's steel tariff, but memories are often quite short in electoral politics.

News accounts from last year indicated that the president's economic advisors opposed the steel tariff, but his political advisors, most notably Karl Rove, favored it. Not everyone likes Rove, but no one thinks he's dumb. And now I'm thinking that the administration's move was brilliant. It wasn't ham-fisted economic favoritism; it was an inspired political strategy. It was never designed to actually alter trade in steel, at least not for long, because the administration never thought the tariff would be allowed to stand.

There are some interesting parallels between the steel-tariff case and the furniture industry's effort to limit imports from China. This month furniture manufacturers filed their long-awaited and much-trumpeted anti-dumping petition, which alleges that Chinese imports of wood bedroom furniture are being "dumped" on the U.S. market, i.e. sold below cost. The petition asks that tariffs ranging from 150% to 440% be levied on those products in order to penalize China for its allegedly unfair trading practices.

Since the anti-dumping petition was filed, divisions in the furniture industry have become quite pronounced. A group of furniture retailers, led by such heavyweights as Rooms to Go, Crate & Barrel, and JC Penney, has formed a steering committee to consider ways to fight the petition.

The retailers believe that hitting furniture imports with tariffs will hurt their customers, thereby hurting their business. They claim that more jobs will be lost in the retail sector due to the petition than will be saved in the manufacturing sector. In a recent memo, the group denounced the anti-dumping petition as "nothing less than a declaration of war against U.S. furniture retailers."

It may not be surprising to hear such strong language from furniture retailers, but others in the industry appear to agree. Importing companies are just as angry as retailers. Some are talking about legal action of their own, and others are lining up alternative sources for imported furniture, including Vietnam and Malaysia.

Not even all furniture manufacturers support the anti-dumping petition. Furniture Brands International, the largest American manufacturer, has gone on record saying that it strongly opposes the petition. FBI officials even argued against the petition during its initial hearing by the federal government last week.

So what we have is a noisy and divided industry, with many (but not all) domestic manufacturers supporting trade protection and the biggest domestic users opposing it. Lobbying groups and nervous workers are arguing on all sides of the issue.

As it happens, the previous paragraph describes the steel industry just as accurately as it does the furniture industry. And therein lies a warning for the furniture manufacturers promoting the anti-dumping petition. Now that we know how cleverly the Bush administration can play the trade-dispute game, what will its role be in this furniture dispute? How will the administration handle the political angles in a furniture industry at odds with itself?

Perhaps what the furniture manufacturers should fear most is the administration upping their ante on the petition. Now that China is a member of the WTO, such actions are potentially reviewable by the trade organization. If the Bush administration were to take the anti-dumping petition and strengthen it so as to virtually guarantee its rejection by the WTO, it might be able to repeat its steel-tariff coup.