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REVIEW & OUTLOOK

Steel of the Century

President Bush meets with his economic team at the Crawford ranch today to discuss how to help the economy create more jobs. We have a modest proposal: Repeal his own 30% steel tariffs.

At this stage in his Presidency and the business cycle, there isn't much else Mr. Bush can do. Fiscal and monetary policy are more or less baked in the cake for 2004. The tax cuts are beginning to kick in and the Federal Reserve has the monetary gates wide open; its statement yesterday holding the fed funds rate at 1% suggested a rate hike later rather than sooner.

Any White House heading into an election year is naturally worried about job growth, which has been lousy for about three years. But business hiring is always a lagging indicator and it too should begin to improve if growth accelerates past 3% a year. Nonetheless, if Mr. Bush wants to take out some employment insurance, repealing the steel tariffs would have instant benefits.

The President has been quiet about his tariffs ever since he imposed them in March 2002, and with good reason. The evidence is that they've done far more economic harm than good, especially to American manufacturing. Designed to help only a single industry, the tariffs have instead punished the far more numerous industries that use steel.

In the wake of the tariffs, domestic steel prices have risen by 30% or more. The price of hot-rolled steel, a major industrial commodity, nearly doubled from late 2001 to July 2002. Shortages in specific products abound, as foreign steel makers have sent their steel to suppliers in other countries. Many steel consumers have struggled to find reliable, quality product at prices that keep them competitive with foreign manufacturers.

This has all cost American jobs. A study done this year for the Consuming Industries Trade Action Coalition found that higher steel prices cost some 200,000 American jobs and $4 billion in lost wages from last February to November. That compares to employment in the entire domestic steel industry of only 188,000. No fewer than 16 states lost at least 4,500 steel consuming jobs, including the key Presidential election states of Pennsylvania and Florida that each lost nearly twice that number. (Karl Rove, see Electoral College map.)

The specific job consequences were laid out in illuminating detail on the Senate floor last month by Tennessee's Lamar Alexander. The Republican noted his state is now home to 900 auto supply companies that employ 100,000 workers. When those companies couldn't raise prices to cover increased steel costs, they "suffered losses and began to lay off employees. In a few instances entire plants closed." Auto supplier ArvinMeritor closed a plant employing 317 in Gordonsville. A plant in Pulaski laid off 100 more.

The Senator also cited Dura Automotive Systems, which has five Tennessee plants and makes driver control systems. Dura lost $10 million last year, largely due to higher steel prices for hot- and cold-rolled strip steel, and its delivery wait for U.S. steel products increased to 18-20 weeks from 10-12. In a world demanding "just in time" inventory, this can be deadly.

Mr. Alexander is worried, and with good reason, that "If these steel tariffs continue through the years 2004 and 2005 as scheduled, there will be a wave of plant closing across Tennessee and other steel-consuming states." (Further memo to Mr. Rove: Tennessee is a swing Presidential state, with 11 electoral votes.)

In figuring the steel tariff costs, the Bush economic team may also want to include the jobs that will be lost if Europe retaliates as promised in November. The World Trade Organization has already ruled that the steel tariffs are a violation, and Europe has drawn up a list of American exports that will be slapped with some $2.2 billion in duties once the U.S. loses its appeal later this year. Those exports just so happen to come from 2004 battleground states.

All of this evidence, we are told, may finally be making some headway inside the Bush Administration. New Treasury Secretary John Snow is weighing in against, as is chief White House economist Greg Mankiw. The Administration's free traders are pushing for Mr. Bush to lift the tariffs in September at the 18-month mark, as he is allowed to do under the law. Such a decision would also conveniently keep him ahead of any European retaliation and an ugly little trade war.

Rarely do American Presidents get such a clean chance to amend their economic blunders as Mr. Bush now has with steel. Lifting the tariffs would do more to help workers and create jobs than all of the media roadshows and economic summits from here to Election Day.

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