



ARTHUR FOULKES: President Obama's tire tariff should hit the road

By Arthur Foulkes
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— President Obama recently has joined a long and disappointing line of U.S. presidents in approving taxes on imports designed to help favored domestic companies or workers at the expense of everyone else.

Based on a complaint filed by the Steel Workers union, the U.S. International Trade Commission recommended in June that President Obama impose a big tariff on Chinese-made tires.

The steelworkers complaint against China was filed under Section 421 of the Trade Act of 1974. This section allows presidents to impose tariffs on foreign-made products for no reason other than those products are potentially taking business from domestic companies. Unlike other U.S. trade laws, Section 421 only applies to China and is seen as something purely up to the president to pursue or not pursue.

Presidents are not required impose Section 421 tariffs. To his credit, President George W. Bush, although not guilt-free in trade policy, rejected four ITC recommendations for Section 421 tariffs.

Unfortunately, President Obama largely accepted the ITC's recommendations and imposed a 35-percent tariff on Chinese tires. As with all protectionism, the move is designed to help a small number of people or companies at the expense of everyone else.

Most tires imported from China are what tire manufacturers refer to as "third-tier" tires. U.S. tire companies, writes Daniel Ikenson of the Center for Trade Policy Studies at the Cato Institute, do not generally produce these relatively inexpensive tires in the United States.

Third-tier tires made in China sell for less than \$40 each while the average, higher-quality tires made in America sell for about \$70 each. The profit margin on the third-tier tires is so small, tire manufacturers will not produce them in America even under the new tariff. Rather, Ikenson writes, they will simply move their production facilities to South America or Mexico, where Section 421 does not apply. In the meantime, consumers desiring to purchase lower-cost tires will either pay more or – worse – put off replacing worn out tires.

Even the U.S. tire industry, speaking through its trade organization, opposes the tariff. Third-tier tires meet the demand of consumers seeking the least expensive tires, writes the U.S. Tire Industry Association. The new tariff will likely simply "inflict severe financial harm on many retailers and on the motoring public," the association writes.

Tariffs cause higher prices for all sorts of products, not just the items targeted by the tax. Other products that include or utilize third-tier tires, such as some automobiles or trucks, also will become more expensive. Economist Thomas Prusa of Rutgers University estimates that the tire tariff will cost at least 12 jobs for every tire manufacturing job it saves. In all, at least 25,000 U.S. jobs will be lost because of this action, he estimates.

What's more, the tariff will cost American consumers up to \$700 million per year – meaning each tire job saved will cost about \$300,000.

President Obama's decision to impose this tariff on Chinese tires is one of the most troubling of his young presidency. It looks like pure political

payback to union supporters at the expense of everyone else. Worse, there is a chance this could lead to an all-out trade war. Free trade is sometimes a tough sell. But we should remember that nations do not trade, people do. Every voluntary trade is really an exchange between individuals who believe the trade will leave them better off. Protectionism stops people from enjoying the benefits of voluntary exchange, prevents the most productive use of resources and further politicizes the economy. By imposing new tariffs against Chinese tires, President Obama has made the same cynical political calculation many of his predecessors have made — that costs spread over millions of consumers will be less noticed than big benefits to an easily identifiable special interest group. This is not bold change but rather the same sorry story.

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