

The Impact of Obama's Chinese Tire Tariffs

By Roger Simmermaker

As expected (as I expected, anyway) President Obama slapped fairly significant tariffs on Chinese tires that have been flooding the U.S. market and forcing American factories to close and American workers to lose their jobs. The decision to take the unanimous recommendation of the International Trade Commission (ITC) came last Friday.

Obama deserves Kudos for standing up to China in a way many previous presidents and major presidential candidates would not. President George W. Bush rejected four recommendations from the ITC to impose protective tariffs on China, and John McCain has repeatedly made it clear he opposes any sort of import tariffs.

Back in August of 2008 when the textile industry was seeking renewed protections against Chinese imports, the Wall Street Journal reported McCain wasn't expected to support establishing any new trade barriers. Then-candidate Obama, meanwhile, signaled he would be willing to dust off a U.S. law provision that allows America to protect her industries from Chinese competition. In fact, Obama's decision to impose new duties on Chinese tires marks the first time the United States has utilized special "safeguard" provisions in order to protect an American industry from Chinese competition.

Here are the facts of the tire case. China exported \$2.2 billion worth of tires in 2008. The number of tires imported from China leaped from 14.6 million in 2004 to 46 million in 2008. Four domestic tire plants have already shut their doors in the last two years causing over 5,000 American workers to join the ranks of the unemployed. More jobs are slated to be lost this year as well due to the influx of Chinese tires to our shores.

The ITC recommended a staggered tariff structure for three years starting with a 55 percent tariff the first year, a 45 percent tariff the second year and a 35 percent tariff the third year. Obama went with a lighter tariff schedule of 35 percent the first year, 30 percent the second year, and 25 percent the third year, which will be added on to the current 4 percent tariff on imported tires.

Rather than get into the tempting ideological impact battles of so-called free trade and free markets versus protectionism and regulation, I'd like to make sense of the dollars-and-cents impact on our economy. That's really where the rubber meets the road on this tire case, because it's more about the impact on U.S. jobs and U.S. Treasury tax revenue than anything else that will determine if these tariffs on Chinese tires are good or bad for the economy.

Let's start with analyzing what we've lost already in the absence of tariffs before we look at what we might stand to gain from the new tariffs, beginning with the 5,000 jobs already lost in the U.S. tire industry. Let's assume that an American tire maker brings home \$50,000 a year in wages. Using a conservative 25 percent tax rate, that represents \$12,500 lost tax revenue per laid-off worker for the U.S. Treasury. 5,000 workers times \$12,500 each equals \$62.5 million total lost tax revenue.

This tax revenue blow would be reduced, of course, if the laid off tire worker were to find a new job. Unfortunately though for the worker and Uncle Sam, studies have shown that the average manufacturing worker who loses his or her

job and finds another one in the service industry sees a 30 percent decline in wages on average, meaning of course good old Uncle Sam will see less tax revenue from the new lower-wage job.

But that doesn't take into account the hit to the taxpayer if the laid off tire worker draws unemployment, or uses some of the \$400 million or so we spend annually as a nation to retrain laid off American manufacturing workers for new jobs in new or different industries.

I never have fully understood why we as a nation have so eagerly signed up for annually spending \$400 million of taxpayer money for the privilege of laying off American workers and retraining them for jobs they didn't want in the first place. I tend to think Americans are happiest and therefore most productive in jobs that they actually chose for themselves.

But unfortunately we've looked American manufacturing workers in the eye and basically said "I'm sorry, son or daughter, but since we've allowed cheap Chinese competition to overrun your chosen American industry, I'm afraid you'll have to find something else. I'm sorry we have refused to protect American workers like you who must obey and abide by American laws from foreign producers who do not. All the laws and regulations we've created to raise your standard of living like labor laws, tax laws, minimum wage laws, pollution controls, clean water initiatives and the like aren't required of foreign producers who are now undercutting your industry of choice."

What's amazing is that we allow and encourage (and if you're a free trader you *proudly* allow and encourage) workers in China who pay no taxes to America to replace American workers who do. Then we have the nerve to wonder why Social Security is in trouble, or we have to entertain cuts in national defense, or we don't have adequate revenue to pay down the national debt, or why we risk erasing the recent gains we've made in cancer research, or risk losing any number of other worthy programs that go begging for lack of funding.

Now let's look at what we stand to gain from the newly imposed Chinese tire tariffs by making another conservative estimate and applying the tariff to the 2004 figure of 14.6 million imported Chinese tires (this assumes the tariffs will beat back the 2008 figure of 46 million imported Chinese tires.)

Let's say each Chinese tire has a price tag of \$50. Using the 35 percent tariff that Obama says will be applied within 15 days of his decision last Friday, that means the U.S. Treasury will collect \$17.50 per tire in revenue from China for each tire they import to the United States. 14.6 million tires times \$17.50 per tire equals \$255.5 million in tax revenue for Uncle Sam.

What are some of the benefits we get from the use of our tax dollars that this \$255.5 million in tariff revenue would pay for? Here are some of the cost outlays that have already been spent that we could have essentially gotten for free with the tire tariff revenue coming in next year alone.

- * \$200 million on security improvements for airports and shipping ports in Los Angeles (national security anyone?)
- * \$100 million to increase military pensions, health insurance, and benefits for retirees' widows. (support for spouses of fallen soldiers anyone?)
- * \$175 million for traffic congestion initiatives. (a solution for excessive idling in traffic to or from work anyone?)

This \$255.5 million in revenue represents just one tariff for just one year in just one American industry and would have paid for any of the above worthy programs with money left over to boot. There are many other American

industries that are currently being clobbered by the Chinese in the name of free trade for which tariffs could be applied to further get our fiscal house in order.

In September of 2000, the U.S. Senate approved permanent most favored nation status (currently called permanent normal trade relations) for Communist China. It's time we passed most favored nation status for the United States and put our own interests first.

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