Tariffs & Trade
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Tariffs, subsidies and tax breaks are widely used by governments to achieve positions of command or protection in trade relationships. These powerful political and economic tools are always a spur to politicians and a scourge of WTO efforts to resolve trade problems.

As an example, tax laws enacted by the U.S. during the 1970's were used to encourage companies to export more goods and services. Later, these laws were found to violate U.S. trade agreements under GATT, WTO's predecessor. Criticism over these illegal export subsidies caused the Reagan administration to form the Foreign Sales Corporations (FSC) to provide tax breaks for corporations engaged in international trade. These tax breaks were also found to be a violation of international trade agreements.

The WTO ruled in January 2004 that the FSC was not complying with international agreements and, in late August, awarded the EU the right to use a record $4 billion in trade sanctions against the U.S. Under WTO rules, the EU said it might impose counter measures.

Retaliatory tariffs, subsidies and tax breaks for steel and other products continue to incite trade disputes between the U.S. and other nations. In May 2010, the WTO is expected to rule on a recent claim filed by the EU, alleging that President George Bush's imposition of punitive tariffs on imported steel are in violation of trade agreements signed by the U.S. , if President Obama does not rescind that tariff. The EU move followed WTO dispute settlement procedures that require prior consultations between disputing members, and it follows similar actions by Australia, New Zealand, Japan and others.

Pure politics within a given nation underlie much of the maneuvering in international trade disputes. Tax codes are modified or enacted to obtain advantage. Often, deceitful smoke-and-mirror schemes are devised to gain political leverage. An industry such as steel, vital to national and job security, is grist for the political mill in most producing countries.

In the U.S., steel is both an issue and a factor in the presidential election of 2004. George Bush's promise to help the steel industry won him Ohio and West Virginia in his last tight election. However, in other manufacturing states the increased price of steel has caused more job losses than steel tariffs could save. Steel using industries, such as automobile production, have find it cheaper to manufacture abroad, costing U.S. jobs. One political factor for retaliatory tariffs has been the EU targeting of goods produced in marginal Republican constituencies.

Mr. Bush argues that the ailing U.S. steel industry has been hit by rising bankruptcies and needs relief from surging imports. The EU lays the U.S. problem on inefficiency and failure to make it competitive during the past ten years when other nations modernized and streamlined their steel industries.

Wherever international trade competition, for whatever reason, causes potential plant

closings, job jeopardy or price increases, you will see lobbyists pushing politicians to erect protective barriers. But, the steel industry is just as critical to one country as it is to another. Moreover, every effort to remove one import barrier to steel trading tends to create another.

Since 1998, over 30 U.S. steel companies have sought bankruptcy protection and have urged punitive tariffs. However, U.S. import barriers caused a diversion of South Korean and Japanese steel to China. China is a fast-growing steel market, and cheaper imports cut the market share and profitability of its steel companies. The EU, in turn, is concerned that Asian steel will be diverted to the European Union market. With steel, "what goes around comes around."

For the time being, the European Commission has delayed escalating its steel trade war with the U.S., partly because of concessions exempting hundreds of categories of steel imports. Perhaps the temporary truce is based also on the fact that the world's economy isn't in any position to risk a full-blown trade war.

Meanwhile international steel production is surging with booming outputs from Russia, the Ukraine, China, South Korea, Japan, Brazil and elsewhere. A curb on imports to important U.S. markets may prove that steel is a glut that could hit hard on world economic health during the coming year. Curtailing production will surely cause the loss of many multiple thousands of jobs in supplier countries.
If "free trade" lip service is ever to find meaning in reality, old and inefficient producers of steel and other goods must be looked at as one part of the solution.

World Bank economist J. Michael Finger estimates that for every $1 in aid developing countries receive, they lose $2 because of import tariffs and restrictions. For developing countries to gain better access to the markets of the rich, radical reforms are essential to reduce market subsidies, restrict tariffs and eliminate the dumping of surpluses.

More important than any other response, politicians of the world must move beyond immediate political consequences and work on long-term economic solutions governing imports and exports. Unfortunately, in both political and economic worlds, "tit" for "tat" choices must be made. Unnecessary market restraints, government hand-outs, and tariffs not only hurt the efficiency of a country's economy and raise consumer prices, they threaten the solidarity of key free-trade allies needed in a post 9/11 world.

Obama promises change, but if this category is not radically changed, we can expect more of the same, and the economic problems will increase beyond a level that can be sustained in an industrial consumer based economy, and utterly fail. The fiat dollar system is no help to the situation in the long haul, no country has lasted using fiat as a primary economic tool over 100 years, the US met its economic woes after 95 years, and this time the entire global economy was involved. There is a solution, but that will have to left to another President.