Is U.S. Trade Policy Helping or Hurting U.S. Manufacturers?

BY LEWIS E. LEIBOWITZ

Be careful what you wish for—you may get it. These words certainly apply to trade policy. U.S. policy is generally "open trade with exceptions." Do we have it right for U.S. manufacturers?

The "open trade" part of U.S. policy means that barriers to imports are generally very low. The average industrial tariff in the U.S. is estimated to be a mere 1.6 percent. Many important industrial products have zero tariffs, including steel. Passenger cars and most auto parts have 2.5 percent duties. The trade barriers in steel, bearings and other major production inputs are due to antidumping and countervailing duties, not regular tariffs.

Recently we have seen that many voters think we have trade policy all wrong. They blame the loss of U.S. manufacturing jobs on increased imports of manufactured goods.

The facts don't support this. U.S. manufacturing output has increased 66 percent since NAFTA was passed in 1993. So, the basic premise that manufacturing is shrinking in the U.S. is just plain wrong. NAFTA has helped manufacturing to some degree by improving U.S. export potential, and the WTO agreements in 1994 helped more, but the evidence strongly indicates that technology improvements and productivity increases had a lot more to do with the increase in manufacturing output than trade agreements.

Sound manufacturing policy should not rely on protecting American companies or workers from international competition. **Protecting one industry affects others** by increasing costs.

While manufacturing output has increased, however, manufacturing employment has declined. But, this decline is not due to trade agreements either. Manufacturing employment has been declining since the 1960s.

The U.S. steel industry is an interesting example. According to Census and Labor Department statistics, domestic steel shipments in 1975 amounted to about 106 million tons and the industry employed 350,000 production workers. In 2003, the industry employed about 125,000 production workers and shipped 102 million tons. Domestic steel production was essentially the same in both years, while employment declined by two-thirds. The loss of these steel worker jobs therefore didn't result from imports, but from advances in steel making technology and access to cheaper materials. This led to an industry that needs many fewer workers to make the same amount of steel.

In general multinational corporations like open trade and would like to improve it by making trade more open, while those who represent workers (especially union members) don't like it and would prefer trade to be less open. Because so many unemployed manufacturing workers belong to unions, they focus on protecting union jobs. Corporations, by contrast, focus on staying globally competitive.

Protecting American companies or workers from international competition is not a productive strategy, because it will make American producers less competitive. Sustainable manufacturing requires productivity and technology advances. But these essential advances in efficiency naturally lead to some job losses; we need fewer workers to make the same amount of product. Only by creating more jobs can our economy employ those displaced workers as well as new workers.

To have more manufacturing jobs in this country, without stifling innovation and productivity gains, U.S. manufacturers must increase the demand for their products. The only ways to raise demand are to increase sales to export markets or to increase domestic demand.

One key point is that U.S. manufacturing costs must be minimized, especially raw material costs. "Intermediate goods" that manufacturers need should generally not be taxed. Taxing inputs leads to less American manufacturing and more foreign manufacturing. Our manufacturers must rely on open global competition to keep their input prices as low as their foreign competitors'.

However, the U.S. taxes many vital production inputs through antidumping and countervailing duties. While these laws are necessary, they can tax imports and their domestic buyers too much. Many products, including steel, bearings, magnesium, silicon, semiconductors, furniture and hundreds of others are subject to these special duties. The U.S. system imposes barriers that can have the effect of keeping imports out, even if they are not dumped or subsidized. When imports are kept out of the U.S. market, prices go up.

Thus, the best policy to preserve manufacturing and manufacturing jobs without destroying our technological prowess is reduce to a minimum the costs we impose on manufacturers that are located in the U.S. Cutting the taxes on raw materials is a key action that would improve our manufacturing economy and keep more manufacturing at home. **WT**

Lewis E. Leibowitz, a Partner with the Washington law firm Hogan & Hartson, practices in the area of international trade law.