George Bush surrenders to Europe in the steel war

WHEN the Bush administration slapped tariffs on imported steel in March 2002, the move was sold as a temporary measure to help America's ailing steel companies get back on their feet. Job losses in the battered industry were concentrated in rustbelt states such as Ohio and West Virginia (which George Bush would love to win again in the 2004 elections) and Pennsylvania (which he hopes to snatch from the Democrats). Last month the World Trade Organisation ruled again that the tariffs were illegal.

On December 4th, a mere 20 months after imposing the tariffs, Mr Bush withdrew them. The president said his decision was based on his "strong belief" that America was "better off with a world that trades freely and a world that trades fairly." It would be nice to think that a chastened Mr Bush had recovered his zeal for free trade. The truth is that the White House's electoral-college-vote-counters, led by Karl Rove, realised that a fight with Europe, as well as with the steel-making countries in Asia who stood ready to pile in, was not worth it.

The tariffs helped cut steel imports, but America's trade deficit with Europe has widened (see chart). More pressing, the European Union had given a mid-December deadline for America to give up the tariffs or face retaliatory duties of $2 billion.

The EU's strategy of retaliation was especially clever. It would slap new tariffs on Floridian oranges and a host of other American exports from Republican southern and western states. The last thing Mr Rove wanted was for textile workers in the Carolinas to start voting Democratic. Steel executives called the Europeans' threat "blackmail", which it undoubtedly was.

Mr Bush prepared the way for a climbdown by visiting some of the states affected by his steel tariffs. On December 1st he travelled to Michigan, another key state in the 2004 election, which is more a user of steel than a producer. There the steel tariffs put up prices and are a burden on businesses such...
as the big car-makers. In Michigan, Mr Bush sang the virtues of America's rebounding economy.

That recovery should make removing the tariffs much easier. Mr Bush can point to strong results from a November purchasing-managers survey that shows manufacturing activity briskly rebounding. A booming economy in the third quarter, now revised up to 8.2% growth at an annual rate, helps as well. Unemployment has crept lower, blunting the impact of the nearly 3m job-losses that his Democratic rivals found so useful to mention in their stump speeches over the summer.

The next day, however, found Mr Bush in Pennsylvania, a steel-producing state with 21 electoral votes where the greeting was less friendly. The administration is trying to put a happy face on its decision, arguing that the work of the tariffs has already been achieved as the industry has been successfully restructured. Mr Bush also announced a new "import monitoring system" to spot unfair "surges" of foreign steel. Yet the steel industry is unhappy, and its unionised workforce will surely remember the betrayal.

How much damage will these disgruntled steelworkers do Mr Bush? Here the political calculations get complicated. Despite Mr Bush's present of the tariffs, the main steel union has already endorsed Dick Gephardt for the 2004 race. The Missouri congressman would certainly speak for rustbelt America, if he won the nomination. But for the moment he is still trailing Howard Dean, and Mr Bush's people reckon they can portray the former governor of Vermont as an elite liberal out of touch with the rustbelt on a host of non-economic issues, such as gay marriage and the Iraq war. The same more or less goes for another north-easterner, John Kerry.

Even if Mr Bush's political calculations on steel prove correct, his problems with trade are far from over. Should he reach a separate peace in this tussle, there is another, bigger dispute with Europe over America's tax relief for exporters. The deadline for resolving it is New Year's Eve. Don't expect the White House's enthusiasm for free trade to last that long.