Impact of Tariffs on Alabama’s Small Businesses

The impact of any federal regulation on smaller businesses is often lost in the 24-hour news cycle; this is especially true for import tariffs, which most media outlets only cover at a national or macro level. When viewed individually – and in geographically diverse locations across the country, the increased costs and lost jobs at small businesses are seemingly insignificant. Conversely, when one steel mill closes, the local impact is both significant and noticeable; politicians pay attention and the story appears on the nightly news and on social media.

On March 8, 2018, President Trump issued a proclamation, instructing the government to levy tariffs on imported steel and aluminum, citing the Section 232 of the Trade Expansion Act of 1962. While the majority of the statements issued by the administration - both in written and digital format – have focused on the large trade imbalance between the United States and China, Section 232 deals specifically with the impact of imports on national defense. After a year of study, the U.S. Secretary of Commerce published his findings in January 2018. The final report concludes that the current level of imported steel and aluminum products “adversely impacts the economic welfare of the U.S. steel economy,” which in turn imperils our national security. In the report, the Department of Defense acknowledges that current “estimates for U.S. steel needs is now calculated to be three percent of U.S. steel production.”

Regardless of the rationale used to justify the tariffs (set at 25% for steel products, and 10% for aluminum products), there is no doubt that both the producers and consumers of these products will be impacted.

Several steel manufacturers have already announced plans to open, re-open, or increase production at existing mills (US Steel, Republic Steel, Arcelor Mittal). One pair of economists - known for their work in studying the impact of tariffs- estimate that the tariffs could boost employment in US metals industries by over 33,000 jobs. In an election year, this one statistic can be leveraged to shape public opinion and easily justify the current trade strategy.

“How will this impact my business?” is the most often asked question that is fielded by my colleagues at the Alabama International Trade Center, an economic development program of the Culverhouse College of Business at the University of Alabama. While most small business owners are aware of the discussion surrounding import tariffs, few actually have a firm grasp on how the changes will impact their bottom line. This does not reflect a lack of interest, concern, or sophistication on their part, but rather illustrates how challenging it is for the CEO of a small firm to deal with a rapidly changing trade environment. Where large firms have entire teams that monitor and report on trade flows and pending legislation, smaller firms are often less aware of the individual Harmonized System (HS) codes used in their supply chain- or in their supplier’s supply chain. Any firm- regardless of size – may delay capital expenditures, hiring decisions, and even product development when faced with an uncertain operating environment. How can a company evaluate the export potential of a new market, or determine the best foreign supplier for their product, when the government’s policies seem to evolve on a daily basis?

To help companies understand how tariffs may affect their business, and their industry, we can quickly look back at tariff increases enacted by previous administrations, review the intended outcomes, the actual outcomes, and some of the unintended consequences:

In 2002, President Bush cited section 201 of the Trade Act of 1974, which enables the President to grant temporary relief to industries impacted by trade, to levy tariffs between 8% and 30% on steel products. Steel producers in Ohio, Pennsylvania, and West Virginia all benefitted from the tariffs (increased production, greater margins), while steel consuming industries in Tennessee and Michigan were harmed (smaller margins, increased cost of raw materials, reduced production shifts). It is estimated that at least 3,500 jobs in the steel industry were created as a result of these tariffs. However, decreased employment in steel consuming industries more than offset those gains. The US Department of Labor reports that steel consuming industries lost over 3,000 jobs in Alabama, and over 5,000 jobs in Georgia; the nationwide job losses were estimated at over 190,000.

Eventually, the World Trade Organization ruled against the United States; steel imports in the years preceding the tariffs had actually decreased. In the meantime, trading partners in Europe retaliated against U.S. tariffs by imposing their own tariffs on vehicles (produced in Michigan – and Alabama) and on oranges from Florida; both are known as key swing states in the Electoral College.

In 2009, President Obama cited section 421 of the Trade Act of 1974 to levy tariffs on tires imported from China. That act specifically allows the administration to protect domestic industry from market disruption caused by a surge in imports. Indeed, trade statistics show that China’s share of the U.S. tire market jumped from 4.7% in 2004, to 16.7% just four years later. During that stretch, at least four domestic tire companies ceased production. These limited-time tariffs, 35% in year one, 30% in year two, and 25% in year three, were designed to stem the job losses and essentially buy time for domestic companies to adjust to the competition. In some aspects, the tariffs worked. At the State of the Union address, President Obama celebrated the impact of the tariffs, stating that the tariffs saved over 1,000 jobs in the U.S. tire industry.

Those saved jobs came at a cost. China retaliated with tariffs on U.S. poultry products that ranged from 50% to 105%; about 250,000 Americans are employed in the poultry industry, which relies on exports to remain profitable. American tire consumers, faced with fewer tire options and more expensive tires, decided to purchase the next-least-expensive tire option; most of those purchases went to tire producers from other countries in Asia and Mexico. The consumption of domestically-produced tires did increase, albeit marginally. Economists estimate that the increased tariffs and increased tire prices cost American consumers $1.1 Billion. The additional money that US consumers spent on tires reduced their spending on other retail goods, indirectly lowering employment in the retail industry. About 3,700 retail jobs were lost; since the losses occurred across 50 states, the cumulative impact was never noticed.

Present day, the recently enacted steel and aluminum tariffs will have the largest impact on these industries in Alabama: auto parts manufacturers, aerospace parts manufacturers, craft breweries, metal fabrication shops, and construction firms. Politicians would be wise to observe that two of the most robust manufacturing sectors in Alabama – automotive and aerospace - will be negatively impacted by these tariffs. Economists estimate the steel- and aluminum- consuming industries could lose as many as 179,000 jobs. That estimate does not include the potential losses that could occur should China follow through on its threat to target America’s agriculture sector with retaliation tariffs, which would also impact Alabama directly. Soybeans, one of the crops targeted by China, are Alabama’s top agricultural export by dollar value in 2017.

Political points may be scored during this back-and-forth with China, but history shows that the expenses incurred by American consumers, manufacturers, and workers usually outweigh the economic benefits used to justify the tariffs. Where inequities exist and action is required, a thoughtful and strategic approach at the negotiating table would likely yield a more stable operating environment for all involved.