

# The Peril of ‘Buy American’

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It's not surprising that Democrats in Congress could not resist adding a "Buy American" provision to the fiscal stimulus bill earlier this year. It might seem sensible (or at least politically useful) to ensure that taxpayer dollars would be used exclusively to support American jobs.

But as states and municipalities start spending stimulus money, the idea is starting to look as counterproductive as it should have looked from the beginning. It is sparking conflict with American allies and, rather than supporting employment at home, the "Buy American" effort could ultimately cost American jobs.

Foreign and domestic companies that employ hundreds of workers in this country cannot bid for government projects because they cannot guarantee the American provenance of all the steel, iron and manufactured goods in their supply chain, as the provision requires. Others are scrambling to figure out whether American-made alternatives exist to replace their foreign inputs.

The steel company Duferco Farrell, for example, has cut about 600 jobs in Pennsylvania after it lost orders from its biggest customer because some of its goods are partly produced abroad. The Westlake Chemical Corporation of Houston has lost sales to a Canadian vinyl pipe maker that is cutting back production because it can't bid for some American jobs.

America's trading partners expected more of President Obama, who signed a declaration against protectionism at the summit of the biggest nations in April. He convinced Congress to add a clause to its "Buy American" effort promising Washington would meet its international obligations. But cities and some states are not bound by the rules of the World Trade Organization and the North American Free Trade Agreement.

Some allies, and many American companies, expected the president would seek to persuade local governments to abide by federal rules, but in April the Office of Management and Budget issued interim guidelines that offered no such guidance.

In the absence of leadership from the president, the temptation to turn to protectionism is growing. Hundreds of municipalities and some state legislatures have signed on to a "Buy American" resolution pushed by the United Steelworkers union. And the House of Representatives stuck provisions requiring the use of American materials into bills about water quality improvement and new school facilities.

Meanwhile, representatives of Australia, Brazil, Canada, the European Union, Japan and Mexico have been consulting about how to respond to the United States' protectionist drive. After Canadian companies were barred from bidding for American business, news reports say that some 12 Canadian cities passed ordinances against buying American. And the Federation of Canadian Municipalities is expected to discuss a possible coordinated response at its meeting this month.

Industries like water and wastewater treatment are highly integrated with their Canadian counterparts, with exports to Canada in 2008 worth \$6.2 billion and imports worth \$4 billion. According to the United States Chamber of Commerce, retaliation by Canadian municipalities could cost American water equipment companies an estimated \$3 billion in lost business.

An analysis this year by Jeffrey Schott and Gary Clyde Hufbauer of the Peterson Institute for International Economics in Washington estimated that "Buy American" provisions could "save" 9,000 American jobs — a tiny number compared with the 650,000 jobs supported by foreign government procurement of American exports.

Indeed, whether it is from the point of view of diplomacy or of job creation, "Buy American" is a terrible idea. One that could make the global recession worse.