



# MARKETWATCH

## Don't Buy Into Myths Saying Buy-American Rules Are Bad

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The misinformation campaign against the "Buy American" requirements attached to Congress' economic recovery legislation is reminiscent of the shrewdest form of propaganda. It's laced with red herrings and glittering generalities but devoid of facts.

To hear critics of "Buy American," you would think such requirements violate our trade obligations, will ignite a trade war driving us into deep depression, and may cost us jobs. Let's set the record straight.

For more than 70 years, buy-American requirements have directed tax dollars to the purchase of American-made manufactured materials and goods for infrastructure projects, and they are fully consistent with trade obligations, which the Senate once again acknowledged through an amendment passed last week.

Existing buy-American requirements have never been successfully challenged in venues such as the World Trade Organization. Why? The United States, like most other industrialized nations, has largely reserved the right to spend its tax dollars domestically without oversight from international bureaucrats.

Some critics have alleged that enacting buy-American requirements would ignite a trade war, reminiscent of the Smoot-Hawley Tariffs of the early 1930s, which many economists believe extended and deepened the Depression. Smoot-Hawley was not wise; it raised U.S. tariffs on thousands of imported products, and it did lead to retaliation.

Here's the difference: With "Buy American," we're talking about tax dollars, not tariffs, and we're talking about government spending, not the free market. Trade is shrinking now, but collapsing economies, not new trade barriers, are the reason. "Buy American" will expand trade opportunities by generating increased American spending, some of which will inevitably be spent on manufactured imports. The global trade regime in place now makes raising tariffs on covered goods virtually impossible.

You might also have read that every economist believes "Buy American" is a bad idea. Wrong again. Many notable economists, such as former Labor Secretary Robert Reich and Business Week's Michael Mandel, believe it is important to do everything possible to stop something called leakage. That's when tax dollars geared toward stimulating domestic economic activity end up being spent overseas, a good example of which was demonstrated by Americans who took their 2008 stimulus rebate checks to big box stores and bought imported TVs. They stimulated the economy of China. With "Buy American," you prevent leakage, because government spending is directed to domestic manufacturing and workers.

Will this shut the United States out of foreign markets? Every nation wants unfettered access to the U.S. market but is reluctant to grant reciprocity. U.S. exports will increase when our government insists countries like China honor trade commitments, stop subsidizing industries, value their currencies fairly, and protect U.S. intellectual property. In fact, nations such as Russia, China, Brazil, India, Mexico, Canada and France have far more restrictive procurement regimes than we do. If we eliminate buy-American requirements, the playing field tilts away from American workers and manufacturers even more than it does now.

Finally, the allegation that buy-American requirements may cost U.S. jobs has been shopped around. This claim is false. On infrastructure spending alone, sourcing exclusively from American-made materials creates 33% more manufacturing jobs, according to a study by the Political Economy Research Institute at the University of Massachusetts-Amherst. The American manufacturing base generates four to five new jobs for each manufacturing job created, precisely the types of jobs we need right now.

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