To Buy American or Not

—THAT IS THE QUESTION

Lindsey Snyder, Assistant Editor

Much has been argued about the "buy American" clause included in the American Recovery and Reinvestment Act of 2009. At face value, there are certainly good intentions embodied in such a provision. After all, what more is threatening the U.S. economy than a deterioration of the manufacturing sector and the job losses that go along with it? (Well, besides the massive banking and housing sector failures.) Mandating infrastructure projects funded with government stimulus dollars to embrace American suppliers will undoubtedly promote a much needed burst of activity manufacturers have been grasping in thin air for. Not to mention the immediate, well-paying jobs created as a result.

"'Buy American' ensures that American taxpayer dollars are used to strengthen jobs in the United States. The stimulus package should help to get steel mills running again—utilization rates have been hovering around 50 percent," says Adam Parr, of the Steel Manufacturers Association. "This will put Americans back to work. Steel industry jobs also have a tremendous trickle-down employment effect, with each steel industry job supporting four to five jobs in related industries. There are also provisions in 'buy American' to protect American taxpayers through waivers for expense and material availability."

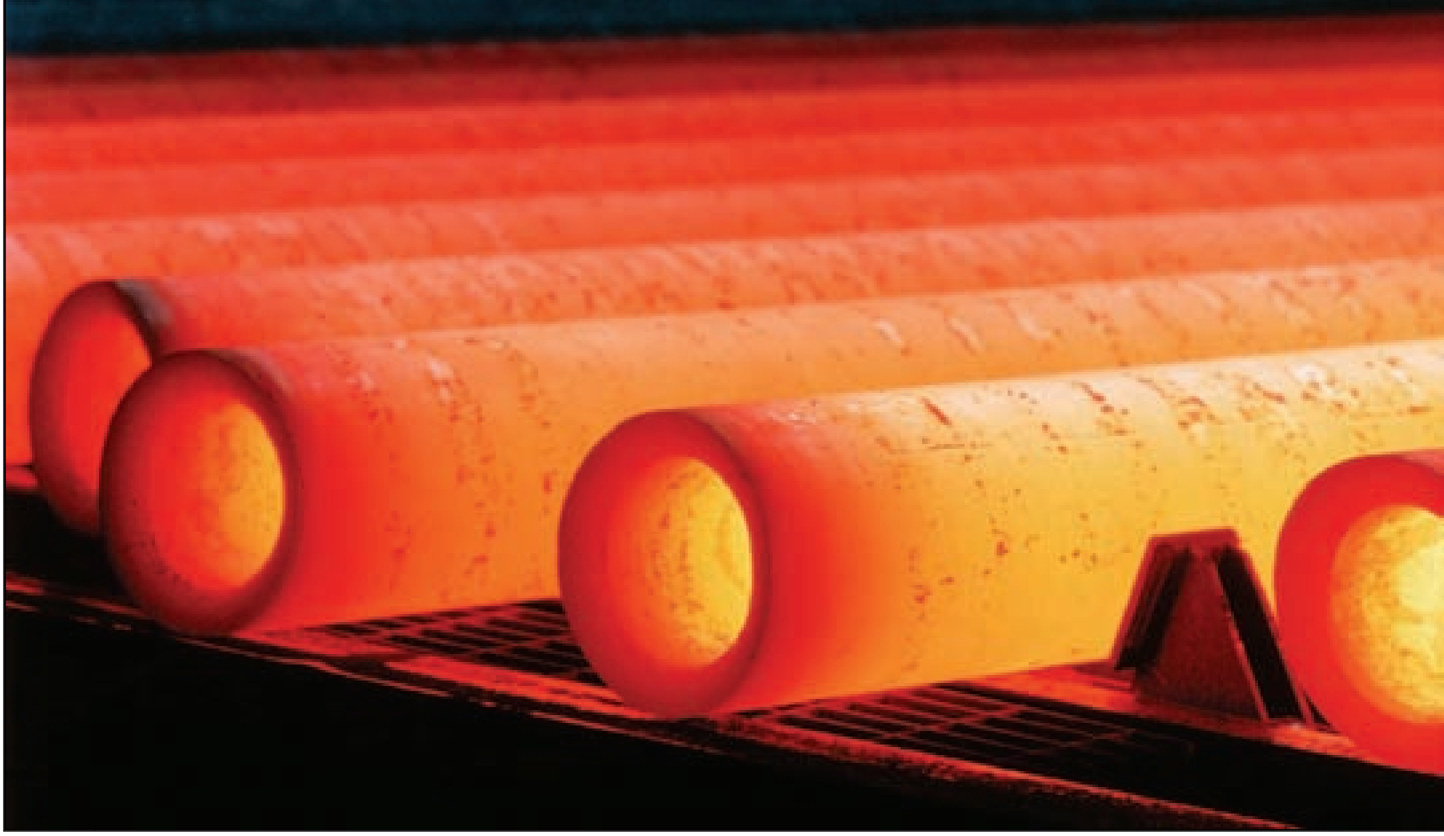
Steel industry jobs tend to demonstrate a trickle-down employment effect as an integral component of the industrial supply chain, and the steel industry stands to benefit from the "buy American" clause contained in the U.S. stimulus package (courtesy of U.S. Steel).

"Buy American" would seem to be a surefire quick-fix to the growing unemployment situation; however, there are many strong and focused opponents. On the flip side of the argument sit broader implications for international trade and the United States' reputation in other countries' eyes. The evil "p-word" is flung around the buy American debate like a pingpong ball. Protectionism certainly has its downside; this is well-documented historically. While exclusively buying American products is, in practice, a good example of protectionist ideology, it will not alone create an isolated, self-sustaining economy. Other characteristics of protectionism include predatory pricing, trade distorting subsidies and government ownership.

"'Buy American' is not protectionist," Parr says. "We have the most open markets in the world—as evidenced by the largest deficits in trade and current [economic] account in world history. The U.S. has every right to use its taxpayer dollars on domestically produced goods."

One of the biggest concerns in the debate is that other countries, like those in Latin America and Asia, will counter with similar provisions in their own stimulus plans as retribution.

The Alliance for American Manufacturing (AAM)—a non-partisan, non-profit partnership made to strengthen U.S. manufacturing—released an FYI factsheet designed to debunk common myths about the "buy American" debate. In response to the threat of trade retaliation, the AAM asserts that "The U.S. is, by far, the world's largest importer, soaking up a net $819 billion in goods in 2007 [U.S. Census Bureau



Industries that depend on alloy mechanical seamless tubing include automotive, aircraft, railroad, textile, mining, anti-friction bearing, oil and gas drilling, machine tool, construction equipment and farm machinery (courtesy of Timken).

Data]. The U.S. imports far more than it exports, (which is) a balance of sales that our trading partners are anxious to preserve. This is not about restricting imports. It is about using taxpayer dollars, when allowed by our international obligations, to purchase U.S.-produced goods. As the global downturn has progressed, many industrialized countries such as France and China have already taken similar action to support their domestic manufacturing base."

China has been a particularly vocal opponent. The country's official news agency published an editorial referring to the "buy American" clause as a form of trade protectionism, which is a "poison to the solution," but Chinese economic policies are far from innocent in the scope of world trade.

"The U.S. has been a leading advocate for global procurement agreements," Parr notes. "Some nations—notably China—have resisted the reform movement and have instead opted to promote their own manufacturing base through self-procurement programs. China continues to subsidize its own steel production and illegally undervalue its currency. Conditions in the U.S. would further deteriorate if we were to continue to make unilateral concessions, while some of our major trading partners play by their own rules."

The United States currently has six active WTO disputes against China, listed in the 2008 United States Trade Representative Report to Congress on China's WTO Compliance—a 115-page document.

What many people don't seem to realize is that the "buy American" concept is not new. According to the AAM, "The U.S. has had such laws in place for 70 years, starting with the Buy American Act of 1933. The Department of Defense has had its own 'buy America' provision (The Berry Amendment) since 1941. In addition, the Federal Highway Administration (FHWA), the Federal Transit Administration (FTA) and Federal Railroad Administration (FRA) all have long-standing 'buy America' provisions."

Several steel industry trade organizations—the American Iron and Steel Institute, Committee on Pipe and Tube Imports, Steel Manufacturers Association and the Specialty Steel Industry of North America—submitted a joint letter to congressional leaders pointing out the historical precedence of "buy American" requirements in legislation, and the letter also states that the legislation at hand only requires federally-funded transportation projects use American iron and steel, made by American workers if it is readily available, and the provision has yet to bring about any trade wars.

"Procurement of competitively priced steel products and specialty metals from competitive domestic sources will not cost the U.S. taxpayer more," the letter states. "It will in fact generate payroll and income tax returns to the U.S. government as a result of stimulating American jobs. To allow the materials to be sourced from outside the U.S. will defeat the economic multiplier effect that is the basis of any form of monetary stimulus."

Domestic steel suppliers stand to benefit the most from "buy American" while manufacturers with high export rates seem the most at risk of international backlash.

Dan DiMicco, CEO of American steel producer Nucor Corporation, is one individual who pushed strongly for the "buy American" clause. In an interview for *60 Minutes*, he said, "What we're saying is, 'Listen, yes "buy American" benefits the steel industry in the United

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States. Absolutely.' But what we're saying also is 'might that concept not also benefit the U.S. economic engine, get it started again.'"

In response to the trade retaliation argument, DiMicco said, "It's all garbage."

He also denied being a protectionist and said he believes the concept of free trade "is an academic luxury the real world doesn't enjoy."

Caterpillar is one company that stands to be hurt by the "buy American" clause, with around 75 percent of sales made outside the country, according to CEO Jim Owens. Although he expressed considerable concern over the "buy American" clause in the same *60 Minutes* episode DiMicco appeared on, Caterpillar later released a statement attributed to him in support of the stimulus package; no mention was made of the "buy American" issue.

"The President and I fundamentally agree that the U.S. stimulus package will be beneficial to the U.S. economy and should spur demand for the types of products made by Caterpillar," Owens said in the statement.

"As a bellwether company for the global economy, we are experiencing the unprecedented depth of this still unfolding global recession, and we believe strongly a fiscal infrastructure investment will create construction jobs in the near term and enhance the competitive position of the U.S. in the global economy."

A similar cautionary tone was issued by John Engler, president of the National Association of Manufacturers (NAM). In a letter to Senate leaders he warned such a measure could backfire, but he also later issued a statement supporting the conference version of the stimulus package. "Our member companies from around the country are telling us they agree with Congress and the Administration that decisive and immediate action is critically necessary to spur economic revitalization," he said. "They understand that the conference version of the American Recovery and Reinvestment Act is not perfect, but they believe the overall plan is an acceptable balance of tax cuts and investment designed to help job providers and the people who depend on them."

The bottom-pour operation processes steel at Timken's Faircrest Steel Plant (courtesy of Timken).

The package that eventually passed contained a diluted version of the initial "buy American" clause, so it does not violate international trade agreements and appeases critics and trade partners. The original bill put forth by the House asserted infrastructure projects use American steel and iron, but the initial Senate bill sought to restrict all manufactured goods to those produced domestically. The Senate eventually agreed to word the provisions so they are "applied in a manner consistent with United States obligations under international agreements."

"Since it was changed, and the current wording and the current language means that we're WTO-compliant and that we aren't in violation of any of our bilateral trade agreements with that clause, that enabled us to support the overall legislation," said Maureen Davenport, SVP of communications for the NAM. "That wasn't why we supported it, but that change made a big difference. We opposed the original language in some of the early drafts."

Others continue to express divergent viewpoints. Christopher Sabatini, editor-in-chief of *Americas Quarterly*, a journal devoted to furthering policy analysis and debate on economics, finance and politics in the hemisphere, wrote in his blog entry February 6, "But while the 'buy American' provision—even in its vague, watered-down form—may not be protectionism in the strict sense, it will have the same effect: increasing costs of projects, wasting taxpayer dollars, sparking retaliation from our trading partners in the hemisphere and undermining U.S. jobs."

The issue of inflated project costs is addressed in the AAM factsheet. "Additional cost—if any—is more than justified. Purchasing high-quality, American-made materials yields an enormous productivity dividend, both in terms of jobs created and the overall reward to the economy. Infrastructure investment would undoubtedly create millions of new U.S. jobs, but there is also the importance of revitalizing the American manufacturing base, which is uniquely capable of generating 4–5 new jobs for each employed manufacturing worker."

In a random survey of 1,001 Americans conducted by Harris Interactive between January 29 and February 1, 84 percent support federal requirements for American-made materials in all federally funded infrastructure investment in the recovery bill. Only four percent strongly oppose the "buy American" requirements with seven percent somewhat opposing; 66 percent strongly favor and 18 percent somewhat favor it. The support was consistent despite gender, age, income level, education or geographic regions included in the data.

Is what's good for America good for the rest of the world? The international community has been looking to the United States to lead the world out of this great recession.

"The global economy is inextricably linked to the health of the U.S. economy," Parr says. "The U.S. has taken steps, consistent with its trade obligations to improve the health of its economy and domestic manufacturing base. Exporting nations are dependent upon access to healthy U.S. markets."

As the debate carries on, stimulus bill funds are beginning to reach the eager, flailing hands of construction project managers and all the way down the supply chain. The true effects of buying American steel and iron in the recovery plan remain to be seen. One thing is for sure: The results, whatever they may be, will be evident from the steel mills in Pittsburgh to auto suppliers in the Midwest to assembly plants in California and everywhere in between.