



Will Buy American Produce Jobs for America?

Jeffrey J. Schott cautions that a Buy American provision in the economic stimulus bill might cost more American jobs than it saves.

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Steve Weisman: Welcome to Peterson Perspectives. This is Steve Weisman at the Peterson Institute for International Economics. Our guest is Jeff Schott, senior fellow and author with Gary Hufbauer of the new policy brief “Buy American: Bad for Jobs, Worse for Reputation.”

Welcome, Jeff.

Jeffrey J. Schott: Thank you.

Steve Weisman: The \$800 billion dollar stimulus bill has a small provision in a small part of the bill that has created quite a ruckus in Congress. Tell us how this Buy American provision would work.

Jeffrey J. Schott: It sets conditions on whether an infrastructure project will qualify for federal funding. In the case of infrastructure projects in the House bill, if any iron and steel used in the project is not American-made, then the project would not qualify for federal funding. The Senate bill under consideration now goes further and says that any manufactured good, not American-made, that goes into any project would not qualify for federal funding. It really sets a total 100 percent American content requirement on components of infrastructure projects.

Steve Weisman: I suppose that would seem like a good idea to lawmakers, but it has provoked quite a lot of opposition among American trading partners, especially in Europe. Why are they so upset?

Jeffrey J. Schott: First of all, there’s a concern that these provisions may violate US trade obligations under the World Trade Organization’s agreement on government procurement, under the North American Free Trade Agreement (NAFTA), and other US trade agreements, that contain provisions on government procurement. Those agreements and those commitments contain numerous exceptions, particularly for statewide procurement, but they still are comprehensive enough, particularly NAFTA, that many of the projects being considered for the stimulus package would probably run afoul of the US obligations if they include the Buy American provisions currently in the bill.

Steve Weisman: Some Americans might say, "So what?"

Jeffrey J. Schott: It does make a difference because foreigners will react, and they can react in two ways. They can emulate what we're doing and restrict their own foreign purchases beyond the extent that they already do so and restrict US exports from participating in foreign procurement. They can retaliate against a wide range of US exports if they successfully argue that the United States has violated its international obligations. Because of this, the authors of the bill included waiver authority that would allow the executive branch to declare under a number of circumstances that in the public interest the Buy American provisions not apply. Some proponents of the bill are arguing that general waiver authority is sufficient to make the bill legal under the international trade rules. That is probably not the case. It would require a more explicit declaration in the law that this would not apply in cases where the United States has undertaken international trade obligations.

Steve Weisman: You and Gary Hufbauer have done some calculations about the supposed gains in terms of jobs protected in the United States versus jobs lost should our trading partners retaliate as you suggested they might. What is the bottom line on that?

Jeffrey J. Schott: The bottom line is that we're not talking about a lot of jobs in addition to what the stimulus package would do in the absence of Buy American provisions. That's because procurement in the infrastructure projects in particular does not contain a lot of foreign-made goods, and US procurement overall has very few imported goods that fall into that category. So we're talking about a relatively small category of purchases in areas and industries or products that are very capital-intensive like steel. We're not talking about changing a lot of jobs. Every additional job is important, and we want to encourage programs that will create more American jobs, particularly at a time when the US unemployment rate is rising very rapidly. But the risk here is that, on balance, we may not be doing that if there is a foreign reaction to the US programs that leads to a cutback in US exports and then a decline in US jobs.

So the bottom line is this. At best, the Buy American provisions would add a small amount of additional jobs, a very small amount, but there is also a very good chance that because of foreign reaction to this provision, we could end up with fewer jobs than what we would otherwise have. So on the job issue, it's pretty much a wash. But that doesn't take into account the very negative effect that these provisions have on the ability of US officials to work with their foreign counterparts to deal with the bigger problem. The bigger problem is: How do we all get out of this big mess that we're in, the global financial crisis? That will require a great deal of cooperation and good will among the United States and its major trading partners.

Steve Weisman: After the criticism surfaced in Europe, in Canada, among trading partners and indeed after your policy brief was published this week, President Obama was asked in a couple of television interviews about this. He said that he did not wish

for this bill to send a protectionist signal to the world. Does that give you some hope that he will work to remove this provision or at least sign it in such a way that he negates it?

Jeffrey J. Schott: What I think I hear from these comments that have made this week from President Obama is that he's very sensitive to the concerns that we have been discussing. The first concern is how to get the US economy up and working and growing again. Two, in order to do that, he understands that we need to have cooperation, that we can't do this ourselves. We need the support, cooperation, and the actions of other governments that will help revive the global economy. And so he has to find some happy medium to take care of the domestic imperatives that are being expressed and represented in the Congress. The international situation is a big part of the solution that is required to find a way of getting out of the big economic hole that we're in. That will require a big global effort to get out of.

Steve Weisman: Suppose this provision stays in some form. Is there some way that President Obama can sign it but also make some accompanying statement that would protect the American position on this?

Jeffrey J. Schott: The United States entered into a commitment at the last G-20 Summit in Washington on November 15, 2008, that we would oppose new protectionist measures. These Buy American provisions will increase protectionism. So if the provisions stay in the law, they will increase restrictions against at least some countries. There are many countries that the United States is not obligated to provide non-discriminatory treatment in government procurement, including big trading partners like China, India, and Brazil. So there will be an increase in discrimination if these provisions stay in the law.

Now, if they do remain in the law, it would be at least much better to indicate how the waiver authority would be used and to ensure that the waiver authority at least covers all of the US international obligations so that from the start, our Canadian, Mexican, European, Japanese, and other major trading partners know that their rights will be maintained and the United States will not be in violation of its international commitments.

Steve Weisman: Jeff Schott, thank you very much.

Jeffrey J. Schott: Thank you very much.

