

# WebMemo



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## Buy American Hurts America

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Looming large in the stimulus package passed by the U.S. House of Representatives Wednesday—and currently under consideration in the U.S. Senate—is the expansion of “Buy American” provisions that discriminate against foreign goods and services in U.S. government procurement. House legislation would require that only iron and steel products made in America be used in the myriad public works projects funded in the stimulus package—unless domestic steel adds more than 25 percent to the cost of the project. The Senate version is even more restrictive, banning the use of *any* import in stimulus-funded projects.

Advocates of Buy American rules claim that limiting competition for U.S. government contracts to domestic firms will protect U.S. jobs and help prop up firms in troubled industries. Regrettably, the cost of such protectionism will be inflicted on the American public, who will fail to get the best value for their hard-earned taxpayer dollars; the U.S. workers who lose their jobs when the companies they work for go out of business as countries retaliate in kind; and the economy as a whole, which will become less productive.

Rather than expand on the Buy American provisions the U.S. has long maintained, a better approach would be to open competition in government-funded projects even wider. This expansion will help ensure that America gets the most benefit it can from vast new government spending. It will also send a critical message to the world that the U.S. is committed not only to its own welfare but to that of the international economic system as well.

**Protectionism Is Not the Right Answer.** The devastating economic effects of such protectionist

measures are well-documented. The Smoot–Hawley Tariff Act of 1930, for instance, raised U.S. tariffs on more than 20,000 imported goods to record levels. Introduced as a means to reduce imports and protect American businesses and jobs,<sup>1</sup> Smoot–Hawley did cut the amount of imports between 1929 and 1933 in half. At the same time, exports dramatically declined,<sup>2</sup> and unemployment grew from 3.2 percent in 1929 to 8.7 percent in 1930 and peaked at 24.9 percent in 1933—the heart of the Great Depression.<sup>3</sup> Large majorities of economists and historians now say that Smoot–Hawley played a significant role in worsening the Great Depression.<sup>4</sup> While not the same, the expansion of the Buy American program represents a step toward the same type of destructive protectionism instituted by Smoot–Hawley.

With countries’ economic vitality linked through trade and investment, the need for all nations to protect open markets is crucial to helping the global economy recover and return to a path of growth. Therefore, given the effects of previous protectionist schemes, expanding the Buy American program as part of a *stimulus package* is perverse.

**Leading by Example.** In November 2008, the U.S. and other leaders in the G-8 publicly acknowledged the role trade plays in mitigating the cost of economic contraction and committed to avoid any new

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protectionist measures in their plans to spark their domestic economies. According to recent reporting from the WTO, although the economic downturn has prompted a few instances of protectionism, nations are largely sticking to that promise.<sup>5</sup>

That said, the longer it takes for the world's economies to recover, the higher the risk that trade and investment barriers will find their way into domestic stimulus schemes. While some countries may cave to the temptation to protect the special interest groups and industries clamoring for assistance, the U.S. cannot afford such a response. Implementing new, more restrictive Buy American provisions not only breaks the promise America made to the world in November, but it also opens the door for other nations to introduce similar domestic bias in their own recovery plans.

Such retaliatory measures would result in U.S. firms being denied the chance to compete for billions of dollars in foreign government contracts in support of stimulus projects in Australia, China, France, Germany, the U.K., and elsewhere around the world. While the Buy American provisions might protect 3 million U.S. manufacturing jobs (as claimed by White House spokeswoman Jen Psaki<sup>6</sup>) by shutting out foreign competition, it would threaten many of the more than 57 million Americans employed by firms that depend on international trade if nations retaliate against U.S. protectionism.<sup>7</sup>

Moreover, while much of the U.S. economy has retrenched since the current crisis started, U.S. export performance has improved—a source of economic strength that has so far helped mitigate the cost of the downturn. However, as countries fall prey to global economic weakness, it will be increasingly difficult for U.S. firms to find customers abroad. Opportunity to participate in other nations' stimulus projects would provide a new source of foreign demand as traditional international markets weaken.

**No New Trade Restrictions.** Tougher Buy American provisions protect the few at the expense of the many. Under these provisions, regardless of whether America protects only steel or a broad swathe of industry, American families already struggling to make ends meet will have to pay more for goods and services. U.S. businesses and their employees that depend on global markets will find it harder to stay afloat, and economic recovery will take much longer to come to fruition. Economic recovery depends not only on preserving a competitive, transparent business climate in the U.S. but on preserving the open markets on which so much of our prosperity is based and which even now are helping keep the U.S. from slipping deeper into recession.

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1. The justification for Smoot–Hawley is laid out in the 1928 Republican Party Platform: “[W]e realize that there are certain industries which cannot now successfully compete with foreign producers because of lower foreign wages and a lower cost of living abroad, and we pledge the next Republican Congress to an examination and where necessary a revision of these schedules to the end that American labor in the industries may again command the home market, may maintain its standard of living, and may count upon steady employment in its accustomed field.” “Republican Platform [of 1928]” in Arthur M. Schlesinger, Jr., Fred L. Israel, and William P. Hansen, eds., *History of American Presidential Elections, 1789–1968*, Vol. 3 (New York: Chelsea House, 1971).
2. Tim Kane, Brett D. Schaefer, and Alison Acosta Fraser, “Myths and Realities: The False Crisis of Outsourcing,” Heritage Foundation *Backgrounder* No. 1757, May 13, 2004, at <http://www.heritage.org/Research/Economy/bg1757.cfm>.
3. *Ibid.*, footnote 28.
4. Robert Whaples, “Where Is There Consensus Among American Economic Historians? The Results of a Survey on Forty Propositions,” *The Journal of Economic History*, Vol. 55, No. 1 (March 1995), pp. 139–154, at <http://www.jstor.org/stable/2123771> (January 26, 2009).
5. International Centre for Trade and Sustainable Development, “WTO Report Finds ‘Limited Evidence’ of Protectionism amidst Economic Crisis,” January 28, 2009, at <http://ictsd.net/i/news/bridgesweekly/38844> (January 29, 2009).
6. Anthony Faiola, “‘Buy American’ Rider Sparks Trade Debate,” *The Washington Post*, January 29, 2009, at <http://www.washingtonpost.com/wp-dyn/content/article/2009/01/28/AR2009012804002.html?hpid=topnews> (January 29, 2009).
7. Council of Economic Advisors, “Economic Report of the President,” February 2007, p. 169, at [http://www.gpoaccess.gov/eop/2007/2007\\_erp.pdf](http://www.gpoaccess.gov/eop/2007/2007_erp.pdf) (October 24, 2008).