Trade Test

Why President Obama and his party should resist the cry to 'Buy American'

Washington Post

Wednesday, January 28, 2009; A14

IN THE TWO-PLUS years since he announced his candidacy for president in January 2007, Barack Obama has managed to finesse the issue of trade. At times, such as when he suggested that he would renegotiate the North American Free Trade Agreement, he has veered toward protectionism. At others, such as when he voted for a free-trade pact with Peru, he has recognized the job-creating power of U.S. exports. Now that he is president, Mr. Obama will have to define himself more clearly. The fiscal stimulus bill making its way through Congress provides an early opportunity: Mr. Obama should say no to "Buy American" provisions in the $825 billion measure.

As currently written, the bill would prohibit the use of imported steel on tens of billions of dollars' worth of infrastructure projects, including work on federal buildings and public schools. (There are a few exceptions for those willing to spend a lot of time and money on paperwork.) This is a dramatic extension of current "Buy American" rules for steel, which apply only to highway construction.

"Buy American" sounds patriotic, but paying more than necessary for steel diverts resources that could create jobs in other industries. Worse, it raises the prospect of retaliation against American exporters by U.S. trading partners. The director-general of the European steel industry trade association already has threatened to take the United States before the World Trade Organization if the steel provision passes. (Notably, European stimulus programs do not bar U.S. steel or other products -- yet.) "Buy American" would violate the Nov. 15 G-20 joint declaration, which committed the United States to "refrain from raising new barriers to investment or trade in goods and services" until November 2009.

We do not underestimate the plight of the U.S. steel industry and its workers. Just five months ago, steel plants were operating at 91 percent of capacity; today, because of the collapse in automaking and construction, capacity utilization is 43 percent, according to the Iron and Steel Institute. Alas, the same could be said of many other industries -- including some that, unlike steel, do not stand to benefit from the federal effort to save General Motors and Chrysler. Caterpillar, a huge exporter, just laid off 20,000 workers. We can see why U.S. Steel might support a law that puts Caterpillar's overseas sales at risk. But why is it in the national interest?

Once an engine of global growth, trade is already set to decline by 2 percent in 2009, according to the World Bank. It could collapse altogether if countries start shutting out one another's goods in a shortsighted effort to salvage domestic industries. The United States started one such trade war in 1930, when it enacted a tariff increase that prompted European retaliation -- thus helping turn a bad recession into the Great Depression. Better to learn from this history than to repeat it.