

# No Time for Protectionist Impulses

BY JOHN A. WEINBERG

Imagine you plan to build a deck on your house. You might purchase all the goods from a local store, but originally the lumber might have come from Canada, the nails from China, and the varnish from England. Now, imagine what that process might entail if the government decided that you couldn't purchase those imported goods. Instead, they had to be produced domestically. Your deck would almost certainly be more expensive — and it may be of lower quality. That's because there would be less competition among firms to provide the necessary supplies.

That's roughly analogous to the situation created by the recent economic stimulus package passed by Congress and signed into law by the president in February. It includes a rule — commonly called a “Buy American” provision — that binds all contractors working on infrastructure projects to use iron, steel, and other manufactured goods produced only in the United States.

Realizing this might cause some problems, Congress did insert language into the final version of the bill that would allow a waiver of these provisions in cases where 1) federal agency heads deem that it is “inconsistent with the public interest” 2) a particular product is not made in the United States or is not made in sufficient quantities domestically or 3) these rules would increase the overall cost of a project by more than 25 percent.

The last point suggests that policymakers are concerned that “buying American” could, in fact, wind up costing Americans considerable sums of money on public projects. But it's not clear why that particular figure was chosen. Why not 20 percent or 30 percent? In any of these cases, there still would be a significant subsidy to domestic producers — some of whom may be less efficient producers of these goods and may already be shielded from competition by existing tariffs and other trade barriers.

In fact, it's hard to see how any cost overrun is not “inconsistent with the public interest.” It is incumbent upon policymakers to make sure that taxpayer money is spent as efficiently as possible.

The “Buy American” provision is an example of what seems to be a creeping return to a form of economic nationalism. It might remind economists and historians of the early 1930s, when the United States turned its back on the world economy with ill-guided laws like the Smoot-Hawley Tariff Act. Dozens of other countries retaliated and world trade fell about two-thirds within five years, deepening the economic crisis.

Another example of this trend is a provision in the appropriations bill signed by the president in March. Within that bill was the discontinuation of a pilot program that allowed Mexican trucks to haul cargo over long distances on American roads, probably reducing transportation costs — and ultimately the costs of the products being imported. As a result, Mexico has already retaliated by imposing duties on \$2.4 billion worth of U.S. goods that they import, ranging from pencils to toilet paper.

There are some glimmers of light on the trade horizon in the wake of these questionable policies. President Obama, although he signed the bill that restricted trucking access, has publicly stated he wants to find a way to re-open these trade routes to Mexican trucks. And the final language of the

stimulus bill does require implementation of the “Buy American” rules to fall within the boundaries of international trade agreements, like the General Agreement on Tariffs and Trade and the North American Free Trade Agreement. If a certain stimulus-related transaction violates any of these, a waiver may be granted.

The intent, however, of these protectionist provisions is obvious. It indicates an interest among some policymakers to further restrict access that U.S. consumers and producers have to foreign goods. It would be hardly surprising if other countries retaliated the way Mexico did. Countries like China, Brazil, and Russia, for instance — countries that are either not included in government procurement accords or do not have free-standing trade pacts with the United States — may be shut out of the chance to supply materials for any stimulus-funded infrastructure projects. According to Census Bureau data, 39 percent of all U.S. nonagricultural imports hail from countries affected by the “Buy American” provision.

Policies like these beg the question of whether the government should be involved at all in deciding from whom we can buy any legal product. It may be tempting — and publicly popular, despite the costs — to label some products off limits simply because they were produced by people in faraway lands. But it's ultimately myopic. It's a road that unfortunately we've been down before. Trade protections are the last thing we need during this economic downturn.

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