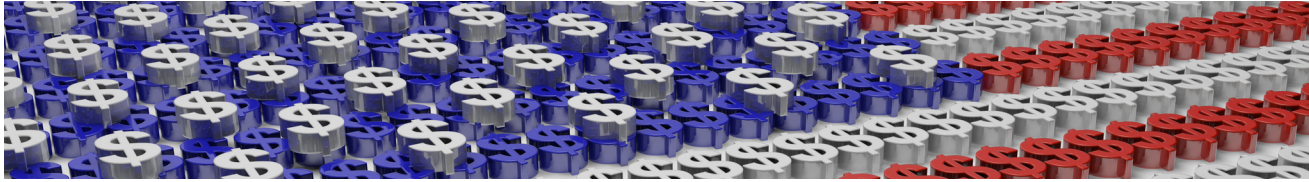


## Buy America Myths & Facts



The American Recovery and Reinvestment Act (ARRA), commonly referred to as the Stimulus Act, includes a “Buy America” requirement to help put Americans back to work by ensuring that iron, steel, and other manufactured goods used in infrastructure projects are procured from domestic producers in a manner consistent with U.S. trade obligations. Since the legislation was enacted, foreign embassies, foreign producers, and the organizations that represent them have mounted an organized campaign of half-truths and myths in an effort to diminish support for Buy America. Despite the fact that 84 percent of the American public strongly supports Buy America, they are attempting to sway government and elected officials, arguing that this provision is bad for the U.S. economy and job creation. The facts, however, tell a different story.

### WHO SUPPORTS BUY AMERICA?

A Harris Interactive poll found that 84 percent of Americans strongly support the Buy America requirement in the Stimulus Act.

Congress adopted strong domestic sourcing requirements within the Stimulus Act on a bipartisan basis. The Senate provision was added with no objection in the Appropriations Committee, and the full Senate voted 65-31 to maintain the language. Meanwhile, the House Appropriations Committee voted 55-0 to include the requirement.

To date, more than 500 states, municipalities, and other local governments have passed “Buy America” resolutions.

Weakening Buy America laws would only satisfy a handful of foreign governments and producers, but would deny the strong support for Buy America among U.S. taxpayers, Congress, and state and local governments. Strictly upholding this domestic sourcing requirement in the Stimulus bill will accomplish the goal of putting Americans back to work.

### WHAT NEEDS TO BE DONE?

- The domestic sourcing requirement in the American Recovery and Reinvestment Act should not be weakened or modified. To that end, the Obama Administration should strictly uphold the intent of Congress that domestically-sourced materials be used in projects designed to put Americans back to work.
- Additional taxpayer investments in the U.S. economy, whether in infrastructure, stimulus, or other programs, should include Buy America requirements. Buy America has been the law of the land for decades and remains the permanent underlying law with respect to various infrastructure related expenditures.

## WHY DO WE NEED BUY AMERICA?

### **Myth: The Stimulus and Buy America are simply not working.**

**Fact:** Critics of the Stimulus and Buy America provision who argue that these measures are not effective are rushing to judgment. As of June 30, only \$157.8 billion of the \$499 billion allocated for stimulus projects has been made available to the states. Of the \$157.8 billion, still fewer dollars, \$56.3 billion, have actually been spent. As more ARRA dollars enter the pipeline, the Buy America provision will enhance job creation at all levels of the supply chain since it ensures that U.S. tax dollars are spent on materials produced in the U.S.

### **Myth: Manufacturing doesn't need any help.**

**Fact:** In 2008 alone, the U.S. economy lost 1,033,000 manufacturing jobs. Since the current recession officially began in December of 2007, 1,918,000 manufacturing jobs have been lost, including the most recent drop in manufacturing employment in June. [U.S. Bureau of Labor Statistics data.] However, this manufacturing decline is not entirely caused by the current economic downturn. The U.S. manufacturing sector has been in a recession for the last decade, losing 5.3 million jobs between January 2000 and May 2009 [Economic Policy Institute].

These manufacturing job losses are a reflection of our unprecedented imbalance in trade. The U.S. is producing roughly \$2 billion less per day than it consumes. By the time the current recession had started in December of 2007, the U.S. was already operating with an overall \$700 billion trade deficit. [U.S. Bureau of Economic Analysis] The deficit in trade in goods alone added \$830.9 billion to the U.S. 2007 trade deficit, dwarfing the \$129.5 billion surplus in services. Even as the U.S. trade deficit declined by \$5 billion in 2008, a minuscule amount compared to the total deficit, the U.S. deficit in the trade of goods actually grew by over \$9 billion. So, at a time when U.S. and global demand was shrinking, imports to the U.S. actually grew.

### **Myth: Buy America is poor economics.**

**Fact:** Supporting domestic manufacturing by purchasing American-made goods, especially during the greatest economic downturn our country has faced since the Great Depression, prevents "leakage" of jobs by ensuring that large taxpayer investments in

our economy are not spent overseas, a problem cited by such mainstream economists as BusinessWeek's Michael Mandel. It has also been noted that a concerted domestic procurement program could increase U.S. manufacturing job creation by 33% and ensure that taxpayer dollars are spent at home. [Heintz, Pollin, Garrett-Peltier.]

## DOES BUY AMERICA CAUSE FRICTION WITH OUR TRADE PARTNERS?

### **Myth: This policy is "protectionist" and violates our trade agreements.**

**Fact:** The Stimulus Act requires that the Buy America provision be "applied in a manner consistent with U.S. obligations under international agreements." It is important to note, that such negotiated trade agreements allow for domestic preferences under a number of circumstances. These preferences were negotiated for a reason and it would be irresponsible not to utilize them to the fullest extent possible just as our trading partners do. For example, funding for highway and transit programs is exempt under all international agreements.

The precedent for a domestic sourcing requirement is well-established, dating back 75 years to 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.

### **Myth: This will ignite a trade war and deepen the recession.**

**Fact:** While the Stimulus Act includes \$150 billion for infrastructure projects, the actual figure spent on goods manufactured in the U.S. pursuant to Buy America will be even smaller. This pales by comparison to the total 2008 two-way U.S. trade in goods and services of \$4.5 trillion or the \$2.5 trillion worth of goods and services that the U.S. purchased from the rest of the world in 2008. [U.S. Census Bureau data.]

To get a clearer view of this issue, a historical perspective might be useful. In 1983 President Ronald Reagan signed into law expanded Buy America requirements in the midst of a recession. It neither extended the recession nor sparked a trade war.

**Myth: As the world's "largest exporter," the U.S. could be hurt by not buying foreign-made goods because our trading partners would then refuse to buy from us**

**Fact:** The U.S. is, by far, the world's largest importer, soaking up a net total of over \$840 billion in imported goods in 2008, a balance of sales that our trading partners are anxious to preserve. [U.S. Census Bureau data] Yet, this is not about restricting imports. It is about using taxpayer dollars, as appropriate, pursuant to our international obligations, to purchase U.S.-produced goods to stimulate our economy. As the global downturn has progressed, many industrialized countries such as France and China have already taken similar actions to support their domestic manufacturing base. China, a country that exports much more to the rest of the world than it buys from other countries, has reaffirmed its "Buy Chinese" policy in June for their economic stimulus projects without issuing any apologies to the U.S. Likewise, the U.S. need not apologize for trying to support its own domestic production in accordance with its international commitments.

**Myth: The U.S. is setting a bad example by closing its market.**

**Fact:** The U.S. has been a leading party in reaching broad international procurement agreements that open our market to foreign competition. We grant market access to others when they agree to do the same for us. The Stimulus bill clearly articulates that these agreements remain in effect. Accordingly, the domestic procurement requirements provide a powerful incentive for countries with closed procurement systems to make reforms that promote free trade. After all, the entire framework for international procurement rules is founded on reciprocity. Granting unilateral access to our procurement markets to countries refusing similar treatment to us would make absolutely no sense, and would actually dilute or eliminate any incentive these countries have for opening their own markets.

A good example is China, which has not signed the international Government Procurement Agreement and has had a domestic sourcing requirement in place since at least 2002 that limits government procurement to domestic goods, construction, and services except when the products cannot be obtained in China or cannot be obtained on reasonable commercial terms in China. It recently reaffirmed that policy with respect to its \$587 billion stimulus package. It is also worth noting that China continues to subsidize its

own producers via deliberate (and illegal) currency undervaluation.

**DOES BUY AMERICA HELP OR HURT AMERICAN BUSINESSES?**

**Myth: Buy America is counter-productive and causes Americans to lose jobs if a business is not able to participate in stimulus projects.**

**Fact:** The case of Duferco-Farrell Corp. in northwest Pennsylvania provides a compelling example of an opportunity for job preservation and creation in the U.S. Duferco is a Swiss-Russian owned multinational steel producer that prefers to import its raw steel slab all the way from its parent company in Russia, even though it is readily available from U.S. suppliers. One of its largest downstream customers, Wheatland Tube Co., said it would continue to purchase rolled-steel from Duferco for Stimulus-related business, but only if Duferco uses domestic content. To be clear, no jobs are lost at Duferco because of the Buy America requirement. Instead, its compliance with Buy America supports its workforce with new business resulting from the Stimulus Act and provides new business to domestic steel slab suppliers that are running well below capacity and have been forced to lay off workers, including its own subsidiary slab-producer in Indiana. It makes more sense to put them back to work before sending U.S. taxpayer dollars overseas.

Meanwhile, a Stimulus-funded bridge project on County Road 9 over the Schoolcraft River in northern Hubbard County, Minnesota, is underway. According to a Hubbard County engineer who is overseeing the project, domestically sourced inputs, including cement, plywood, and 55,000 pounds of reinforced steel, are being used because of the Buy America requirement. Local projects had used foreign inputs in the past, which are less stimulative for domestic job creation. Domestic steel is being used to create thirty-foot I-beams to support the bridge deck. Steel rebar is also used in the project. The local engineer also reports that the Buy America requirements are not burdensome and are not an impediment to the project. The project came in under budget with \$600,000 allotted, but only \$430,000 needed to complete the project. The bridge construction is moving quickly and is expected to be completed in September.

At the request of its customers, Texas-based Star Pipe Products, which supplies the waterworks industry, has

announced that it will expand its line of products that are made in the U.S. so that they meet Buy America requirements and may be used in Stimulus-funded projects. This supports American workers, one of the main objectives of the Stimulus Act.

Pike Industries, with operations in Maine, New Hampshire, Vermont, Massachusetts, and Rhode Island, was awarded \$31.5 million from the Stimulus Act to complete various roadwork construction projects that will create jobs directly and indirectly through subcontractors and increased business activity at local sawmills hotels, fuel companies, convenience stores, and coffee shops. Not insignificant is the fact that Pike produces its inputs domestically and that the Stimulus-funded work and the Buy America requirement will support its 41 asphalt facilities throughout New England.

**Myth: Buy America’s sole purpose is to protect dying industries.**

**Fact:** Investing in domestic supply chains can promote growth in new industries in the U.S. A good example is United Streetcar of Clackamas, Oregon, which is building the first modern streetcars to be manufactured in America in nearly 60 years. It is set to build seven streetcars for the city of Tucson, Arizona, and another six streetcars for the city of Portland, Oregon, as part of system expansions. The work is partially-funded by the federal government and complies with the Federal Transit Administration’s “Buy America” Act that requires at least 60 percent of a vehicle contain domestic content. As a result, the work will create manufacturing jobs for an entire network of companies, both locally and throughout the U.S.

**Myth: This will raise the cost of projects.**

**Fact:** Competitively-priced, domestically-sourced products are readily available. But, 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.

As a protection to the American taxpayer, Section 1605 of the Stimulus Act allows for waivers of Buy America requirements under certain circumstances. For example, the provision may be waived if the use of domestically-produced goods increases the cost of the overall project by more than 25 percent or if goods are not produced in the United States in “sufficient or reasonably available quantities.” Similar provisions are included in the “Buy American” Act, which was passed by Congress in 1933 and in other Buy America statutes, including those for funding of highway and transit projects.

Based on 2007 federal contracting data, Buy American Act waivers were granted in the case of insufficient domestic availability for only 0.29 percent of federal contracts, and waivers for cost concerns amounted to just 0.20 percent of spending. Overall, the goods purchased under these waivers represent 0.01 percent of all federal contracting dollars spent. These statistics clearly demonstrate that U.S. goods are readily available, affordable and can be used to create U.S. jobs.

**About AAM**

The Alliance for American Manufacturing (AAM) is a unique non-partisan, non-profit partnership forged to strengthen manufacturing in the U.S. AAM brings together a select group of America’s leading manufacturers and the United Steelworkers. Our mission is to promote creative policy solutions on priorities such as international trade, energy security, health care, retirement security, currency manipulation, and other issues of mutual concern.