

'Buy American' Redux

How to raise costs on U.S. construction.

President Obama has gone out of his way to avoid calling his **American Jobs Act** a second stimulus. But you won't notice any difference in the **"Buy American" provision** of his new proposal. It reads the same, word for word, as the Buy American provision in the \$820 billion stimulus of two years ago. It also sends the same message: **The Obama Administration believes that free trade is bad for the U.S. economy.**

The provision states that none of the funds in the bill "may be used for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all the iron, steel and manufactured goods used in the project are produced in the United States."

The perverse economics here ought to be obvious. If the goal is to renovate as many schools, pave as many roads and repair as many bridges as possible, the costs matter. Project engineers will want to lay their hands on the most high-quality, low-priced materials available, whether locally produced or imported. To do otherwise is to run up the price of a single project and leave others unfunded.

The point is that free trade allows any consumer to do more with less, thus leaving more wealth available to do even more. This increases productivity and is the essence of economic growth. The provision more or less concedes this point by waiving Buy American if it "will increase the cost of the overall project by more than 25%." Apparently a 24.5% premium is okay.

Buy American will also anger our trading partners and is sure to provoke threats of retaliation as it did in 2009 from Canada. Ottawa eventually won a waiver from the provision but now faces another battle. This underscores the wider problem of Mr. Obama's lack of trade leadership and the growing reputation of the U.S. as a protectionist bully.

The President is still refusing to send the signed free-trade agreements with Korea, Colombia and Panama to Congress for ratification though it's clear they would pass and be good for economic growth. This **anti-stimulus trade provision** is one more reason for House Republicans not to pass this latest stimulus bill.