

Buy American, Hire American and Make in India: Go Along

In calling for a policy of “Buy American, Hire American,” President Donald Trump has resurrected and embellished a slogan that has been around at least since the Great Depression. But the slogan sends a poor signal to the rest of the world, undercuts fundamental economic precepts, risks retaliatory actions from trading partners, and offers a false promise to American citizens.

In 1933, at the end of his term, President Herbert Hoover inaugurated “Buy American,” in the midst of the Great Depression. The law granted a preference to domestic products in all federal government purchases—what’s often called government procurement. In the 84 years since, the slogan has had its ups and down, both as a patriotic declaration and as a guide to government policy, both federal and state, to promote domestic industries and jobs.¹ At congressional insistence, President Barack Obama embraced “Buy American” in the 2009 stimulus legislation (the American Recovery and Reinvestment Act or ARRA; sideswiping US obligations in the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA). All public projects backed by ARRA funding—e.g., highways, public transportation, wastewater treatment—were required to use domestically-produced iron, steel, and manufactured goods. A waiver could be invoked if Buy American raised the cost of the overall project by more than 25 percent. Canada, a major supplier of steel to the United States, sought specific waivers to buffer discrimination against its firms.

President Trump’s addition of “Hire American” to the familiar “Buy

American,” was aired in his election campaign and repeated in his speech to Congress (link is external) on February 28, 2017. The audience could almost hear the exclamation point. On April 18, 2017, Trump issued an executive order, “Buy American and Hire American,” (link is external) calling on federal agencies to be more vigilant in shunning foreign goods and services. The primary aim is to “maximize...the use of goods, products, and materials produced in the United States” and “to create higher wages and employment rates for workers in the United States.”

Regarding “Buy American,” the executive order directs agencies to “scrupulously monitor, enforce, and comply with Buy American laws.” It requires reports on compliance, minimized use of waivers and exceptions, and ultimately new proposals for policies that ensure that federal financial assistance and procurement “maximize the use of materials produced in the United States, including manufactured products; components of manufactured products; and materials such as steel, iron, aluminum, and cement.” Significantly, the order reaffirms the “melted and poured” standard for US iron and steel production—in other words, all manufacturing processes must occur in the United States. In evaluating bids for government contracts, agencies are directed to avoid any use of foreign-sourced dumped or injuriously subsidized content. The US Trade Representative and the Department of Commerce are also directed to evaluate US commitments in its 20 free trade agreements and the WTO government procurement agreement between 47 members—in which the United States grants national treatment to foreign suppliers in exchange for reciprocal access to those country’s government procurement markets—and whether such commitments “weaken” or circumvent Buy American laws. A comprehensive review is to be submitted to the president within 220 days.

Regarding “Hire American,” the order calls for strict enforcement of immigration laws and US guest worker and visa programs governing entry of foreign workers into the United States. The departments of Labor, Justice, Homeland Security, and State are directed to put forward reforms to prevent “fraud or abuse” of the system and ensure H1B visas are only rewarded to the “most-skilled or highest-paid petition beneficiaries.”

What’s wrong with “Buy American, Hire American!”? As a political slogan, nothing, if you’re a nationalist. As a policy, enforced by federal and state procurement rules, four disadvantages stand out:

- “Hire American,” enforced by limits on skilled immigration (notably H1B visas) conveys a vivid impression that the United States no longer welcomes talented persons from abroad. For generations, America’s strength has been its welcome mat for skilled immigrants who bring innovative ideas to universities, to the industrial heartland, to Silicon Valley, and to every place in between. The specific features of new rules may not be unreasonable, but the surrounding context sullies the historic welcome mat.
- Will “Hire America” stops the hiring of non-American in the who want to pursue the career in the field of science, technology, health, education etc which benefits the whole world including Americans.
- “Buy American” negates a fundamental precept of the American economy: allowing every purchaser, whether an individual, a firm, or a public agency to get the best combination of price and quality. This precept is the foundation of competition, which in turn drives productivity. One reason American industries have reached high productivity levels is their relentless quest to meet and beat competition from foreign firms. Over the past decade, when import growth has been unusually slow, it’s no coincidence that productivity growth has also been subnormal, less than 1 percent a year (see

Hufbauer and Lu 2016). It makes no sense to further stifle productivity growth by discouraging Americans from purchasing goods and services made abroad.

- Can “Buy American” and “Make in India” go along the way. Can both carry the development train and working as two rails of the track.
- “Buy American” provokes instant echoes abroad: “Buy France,” “Buy Canada,” “Buy China.” Indeed, the promotion of domestic content as part of government procurement policies is already widespread (see Evenett and Fritz 2015 (link is external) and Stone, Messent, and Flaig 2015 (link is external)). In its latest National Trade Estimate Report on Foreign Trade Barriers (link is external), the United States calls out Argentina, Brazil, Canada, India, Indonesia, Nigeria, and Russia, among others, for buy-local policies that discriminate against US firms. Government procurement accounts for around 15 percent of global GDP, and US firms excel at supplying items that governments buy—everything from electric power plants, to refineries, to rail cars, to medical equipment, to software systems. The echoes to “Buy American, Hire American!” close multiple markets to US exports and foreclose good jobs in premier American firms.
- “Buy American, Hire American” obeys the integral humanism principle which says about “vasudev kutumbakam” i.e. The world is a family.
- “Buy American” suggests that net jobs will be created if Americans stop buying foreign products. The implication is that the United States can protect its way to prosperity and full employment. To be sure, protection reduces imports, but it also reduces exports by imposing an invisible tax on all the inputs that exporting firms need to compete in global markets. Research shows that there is no connection between high tariffs and low trade deficits, nor is there any connection between protection and low unemployment. While protection benefits particular industries, the benefit comes at a high

cost to economy.

- In the today's scenario of globalization where the world has become a global village. Does this isolation possible?

Perhaps the US Trade Representative's 2017 report on trade barriers released during the Trump administration summarizes the disadvantages of "Buy American" best:

"In recent years, the United States has observed a growing trend among our trading partners to impose localization barriers to trade—measures designed to protect, favour, or stimulate domestic industries, service providers, or intellectual property at the expense of imported goods, services or foreign-owned or developed intellectual property. These measures may operate as disguised barriers to trade and unreasonably differentiate between domestic and foreign products, services, intellectual property, or suppliers. They can distort trade, discourage foreign direct investment and lead other trading partners to impose similarly detrimental measures. For these reasons, it has been longstanding U.S. trade policy to advocate strongly against localization barriers and encourage trading partners to pursue policy approaches that help their economic growth and competitiveness without discriminating against imported goods and services."