

THE NEW CENTER

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ABOUT THE NEW CENTER

American politics is broken, with the far left and far right making it increasingly impossible to govern. This will not change until a vibrant center emerges with an agenda that appeals to the vast majority of the American people. This is the mission of The New Center, which aims to establish the ideas and the community to create a powerful political center in today's America.

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EXECUTIVE SUMMARY

As President-elect Joe Biden prepares to take office, the United States is still reeling from the worst economic shock since the Great Depression. The U.S. unemployment rate has dropped from an April high of 14.7% to 6.9% as of November 2020, but the recent surge in COVID-19 cases across the nation has slowed the recovery and increased small-business shutdowns and layoffs. Biden has laid out his “Build Back Better” economic agenda, which calls for massive domestic investment and a goal of reviving American manufacturing jobs, [5 million](#) of which have been lost since 2000. Part of this agenda includes implementing new rules to encourage “Buy American” as well as mandates to create products that are “Made in the USA.”

If these ideas sound familiar, it’s because they are. President Donald Trump came into office in 2016 stating his administration would follow [two simple rules](#) of “Buying American” and “Hiring American.” Buying American refers to the requirement for U.S. government purchases to prefer U.S.-made products. Hiring American is a more subjective idea referring to bringing back more American jobs from abroad.

Buy American provisions are immensely popular with the public, as evidenced by a recent 2020 poll that found that [75% of Americans](#) support the policy.

But do these policies actually deliver on their promises to spur the U.S. economy and job market? This New Center issue brief will evaluate the history and effectiveness of these policies, as well as what we can expect from the newest iteration found in President-elect Biden’s economic agenda.



THE HISTORY OF THE BUY AMERICAN ACT AND BUY AMERICA ACT

There are currently two federal laws—one passed in 1933 and the other in 1982—that relate to the preference of domestic suppliers for government purchases. The [initial idea](#) of Buy American dates back to the Hoover Administration and was inspired by similar "Buy British" policies that attempted to address trade deficits without the use of tariffs. In a case of history repeating itself, U.S. leaders were also irritated by the volume of construction materials that were "Made in England", which draws comparisons to the anger caused by "Made in China" products in the U.S. today. The adoption of these initial Buy American policies came in lockstep with the forthcoming construction of [the Hoover Dam](#), which aimed to employ American workers and use American construction materials.

The practical method by which Buy American policies work is to make domestic goods more competitive for federal purchases. Those goods that meet the standard qualification of being considered domestic, which is when they are "100% manufactured in the United States with at least 50% domestic content", are priced as normal for procurement. Those goods or products that don't meet this standard incur a cost penalty, which translates to "an added percentage increase in the cost of foreign products during evaluation". Due to this price advantage for American companies that manufacture or produce domestic goods, they typically win the bid for federal procurement.

In contrast, and sometimes confused with Hoover's Buy American Act, President Ronald Reagan signed into law the Buy America Act in 1982. This legislation built upon the ideas of Buy American, but with the specific use case for federal purchases made by the [Department of Transportation](#). As the Reagan administration set about rebuilding American roads and highways, this legislation ensured that only American construction materials were used for the task. This law is still in place today and now requires state and local governments to use products 100% manufactured in the U.S. for the construction of all transit projects such as the building of railways, roads, and highways.





WHAT IT TAKES TO EARN THE LABEL "MADE IN THE USA"

The [Federal Trade Commission](#) (FTC) is responsible for enforcing the famous Made in the USA label commonly found on consumer products. The standard for earning the Made in the USA label is that the product must be made "all or virtually all" in the United States. The "virtually all" stipulation refers to the requirement that all significant material and construction of the product must take place in the U.S. with little or no foreign content.

In the case that a company sells a product with a Made in the USA label, the FTC requires a "reasonable basis" to support their use of the label. Essentially the company must be prepared to provide sufficient credible evidence that their product meets the requirement or face punishment. Oftentimes this requires companies to share their total manufacturing and assembly costs which use foreign content or labor, which the FTC will consider when appraising the claim to the label.

In comparison to the Buy American requirements used for federal purchases, the [Made in the USA](#) label that is used for consumer goods is a far more strict requirement. While a piece of construction equipment purchased for a government project could have as little as 51% of its parts come from the United States, a toy bought for a child must have "all or virtually" all of its parts and assembly come from the U.S. to earn the Made in the USA label.

TRUMP'S "MADE IN THE USA" STRATEGY

During his presidency, Trump has made extensive use of Executive Orders (EO) to shape federal agency implementation of Buy American requirements. The Trump administration points to 10 executive orders that account for his ["Made in the USA"](#) strategy. These include:

- EO 13788 - Buy American and Hire American
- EO 13796 - Addressing Trade Agreement Violations and Abuses
- EO 13806 - Assessing/Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the U.S.
- EO 13858 - Strengthening Buy-American Preferences for Infrastructure Projects
- EO 13873 - Securing the Information and Communications Technology and Services Supply Chain
- EO 13881 - Maximizing Use of American-Made Goods, Products, and Materials
- EO 13920 - Securing the United States Bulk-Power System
- EO 13921 - Promoting American Seafood Competitiveness and Economic Growth
- EO 13922 - Delegating Authority Under DPA to the U.S. International Development Finance Corporation to Respond to COVID-19 Outbreak
- EO 13944 - Ensuring Essential Medicines, Medical Countermeasures, and Critical Inputs are made in the U.S.



The cornerstone of President Trump's "Made in the USA" strategy was Executive Order 13788 on Buy American and Hire American. Signed on April 18, 2017, this [EO was meant](#) "to promote economic and national security and to help stimulate economic growth, create good jobs at decent wages, strengthen our middle class, and support the American manufacturing and defense industrial bases."

The Trump administration's motive for the EO was to address a concern in the [steel and iron industry](#), which the White House considered the target of foreign dumping. American steel and iron manufacturers had been injured by imported steel and iron that was made cheaper thanks to foreign subsidies. Thus far, the EO has led to a decline in foreign imports of steel and iron; however, U.S. employment and production in the steel and iron industry have [yet to benefit](#). Additionally, the EO called for federal agencies to increase their compliance with Buy American requirements by reducing their use of waivers to purchase foreign goods and services. These waivers allow for some government procurement purchases to avoid Buy American requirements in cases where the "goods are not commercially available in the United States in sufficient quality or quantity, or when it would be inconsistent with the public interest."

The other Executive Orders of note are the Executive Order on Strengthening Buy-American Preferences for Infrastructure Projects and the Executive Order on Maximizing Use of American-Made Goods, Products, and Materials. Both orders were signed in 2019 and helped extend the purview of the Executive Order on Buy American and Hire American. The former EO widened the number of federal infrastructure projects eligible for financial assistance rewards, while the latter increased the requirements for U.S.-origin components used in products.

According to the [Office of Management and Budget](#) (OMB), the Trump administration's efforts to expand the Buy American Act were responsible for a 26% increase in domestic procurement and an 8% reduction in the dollar value of Buy American waivers from FY2015-2016 to FY2018-2019.

BIDEN'S MADE IN AMERICA PLAN

President-Elect Joe Biden has made Buying American a [key component of his economic agenda](#). Biden argues that his economic agenda will “Make Buy American Real” and his commitments are actually quite similar to those made by the Trump administration. Biden’s list of policy objectives, most of which do not require legislation from Congress, include:

- Tightening domestic content rules. Biden would increase the greater than 50% requirement to be considered a U.S. product for government procurement purchases.
- Cracking down on waivers to Buy American Requirements. Biden will establish a process that makes waivers public and expands efforts to identify domestic firms that can meet those procurement needs.
- Ending false advertising on Made in USA products. Biden will crack down and impose penalties on companies that falsely label their products as Made in the USA.
- Extending Buy American to other forms of government assistance. Biden will require all companies that benefit from government-funded research and development investments to make their products in the U.S.
- Strengthening and Enforcing Buy America. Biden will strengthen and enforce the requirements that steel, iron, and manufactured products used in transportation projects are melted, mined, and manufactured in the U.S.
- Updating trade rules for Buy American. Biden will work with allies to modernize international trade rules and associated domestic regulations regarding government procurement to make sure that the U.S. and its allies can use their own taxpayer dollars to spur investment in their own countries.
- Shipping American. Biden will continue to support the Jones Act, which mandates that only U.S.-flag vessels carry cargo between U.S. ports.

President-Elect Biden is also calling for \$400 billion in government purchases of U.S. goods and services during his first term, and he would specifically target and commit to:

- purchasing tens of billions of dollars of clean vehicles and products to support the expansion of clean energy generation capacity
- purchasing American steel, cement, concrete, building materials, and equipment to help rebuild infrastructure
- purchasing critical medical supplies and pharmaceuticals ensuring sufficient stockpiles to weather any crisis
- purchasing products in advanced industries like telecommunications and artificial intelligence

According to President-elect Biden’s [campaign website](#), companies receiving procurement contracts will be required to “support good American jobs, including a commitment to pay at least \$15 per hour, provide paid leave, maintain fair overtime and scheduling practices, and guarantee a choice to join a union and bargain collectively. Biden would also require at least 23% of federal contracts be awarded to small businesses (an extension of the 2009 American Recovery and Reinvestment Act), as well as launching a new Federal Procurement Center that helps minority-owned firms apply for and win federal government contracts.”

NEW CENTER CONCLUSION

All of this focus on strengthening Buy American from both political parties would lead one to believe that an enormous amount of government funds must be going towards purchases from foreign countries.

The reality is far different.

According to a 2018 study by the [Government Accountability Office](#) (GAO), of the \$196 billion in federal obligations in fiscal year 2017 to purchase end products, just \$7.8 billion, or 4%, were foreign end products purchased using exceptions to Buy American requirements. The U.S. is also not an anomaly when it comes to its overall imports as a percentage of government procurement. The OECD average is 4.4%, which is the exact same as the U.S. rate of foreign purchases. A compounding issue is that Buy American requirements often encourage other countries to implement and expand their own domestic purchase requirements. This [protectionist tit-for-tat](#) reduces opportunities for U.S. companies to benefit from bidding on foreign government projects in a global market estimated to be worth [\\$11 trillion](#).

Ultimately, there is not much evidence that Buy American policies protect or create many jobs in the U.S. An analysis conducted by the [Heritage Foundation](#) found “no positive correlation between Buy American requirements and job growth in the affected industries.” To cite just one example, as Buy American laws expanded from 1980 to 2016, the steel industry saw a decline in employment from 500,000 to 136,000.

Although Buy American policies haven’t delivered much economic impact, the COVID-19 pandemic has revealed there are instances where the U.S. should have procurement and other provisions that favor U.S. manufacturers of essential products and medicines. Shortages of personal protective equipment (PPE) throughout 2020 proved to be a huge challenge for frontline medical workers combatting the virus across the U.S. [Eighty percent](#) of the active pharmaceutical ingredients that go into U.S. medicines are exported from China or India. As the pandemic worsened, many countries began [limiting their exports](#) of critical medical supplies in order to domestically distribute these goods to their own hospitals in need.

President Trump’s EO 13944 targeted this very issue with the goal of building future capacity for domestic drug production. But this was merely a band-aid, and in fact, increasing compliance regulations and penalizing foreign suppliers has had the inadvertent effect of [raising prices](#) on these critical medical supplies, making it harder to get access when this equipment is most needed.

The next administration and Congress will need to come up with a comprehensive solution to ensure the U.S. has enough domestic capacity to produce its own essential medicines and medical supplies. But the broader set of Buy American policies haven’t proven deserving of the attention they get from either Republicans or Democrats. In order to support American workers with more economic opportunities, we ought to turn our attention elsewhere.