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## The Great Trade Debate; Is 'Buy American' a Slogan Worth Preserving? (Public debate sponsered by Intelligence Squared US)

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**Abstract:** Picture the Bay Bridge in San Francisco. California had to repair the bridge a few years ago, and the domestic steel bid came in at-guess what?-23 percent above the foreign bid. Why it wasn't 24Â percent above, I don't know. But that added $400 million to the cost to repair the bridge. Steel is very capital-intensive; when we increase production we don't hire a lot of workers. Construction is very labor-intensive.



**Full Text:** Call it the Rubber-Chicken War-the looming trade dispute between the United States (which has announced punitive tariffs on imports of Chinese tires) and China (which is threatening retaliation against American poultry exports). Against the background of the G20 trade talks in Pittsburgh, that contretemps made this an auspicious time to examine the age-old question of protectionism. Last week, beginning the fourth season of public debates sponsored by Intelligence Squared US, six panelists discussed the proposition that "Buy American/Hire American policies will backfire." Those arguing for the motion were Columbia professor Jagdish Bhagwati, former U.S. trade representative Susan Schwab, and Dartmouth economist Douglas Irwin. Disputing the premise were United Steelworkers chief Leo Gerard, Harper's magazine publisher John R. MacArthur, and Jeff Madrick, a fellow at the Schwartz Center for Economic Policy Analysis at the New School. Excerpts: IRWIN: In the economic-stimulus bill, one section requires the use of American--made steel in all stimulus-related construction projects unless it costs more than 25 percent above foreign suppliers. Now, this is a good deal for the American steel industry, but it's a bad deal for the rest of us. By raising the cost of construction projects, our nation can afford fewer of those projects. That means fewer jobs will be created with the limited amount of money we have to spend. Picture the Bay Bridge in San Francisco. California had to repair the bridge a few years ago, and the domestic steel bid came in at-guess what?-23 percent above the foreign bid. Why it wasn't 24Â percent above, I don't know. But that added $400 million to the cost to repair the bridge. Steel is very capital-intensive; when we increase production we don't hire a lot of workers. Construction is very labor-intensive. There are about 150,000 steelworkers in the United States, and 7 million construction workers, 1.5 million of them unemployed. So why do we give U.S. steel producers a 25 percent [advantage]? They were the only industry powerful enough to get it into law. It's corporate welfare, pure and simple. GERARD: The fact of the matter is that China did win the bid for the Bay Bridge, and the Bay Bridge is almost eight months behind schedule, and the steel that came from China won't hold the weld. And they're not sure if they're going to have to rip it all down and rebuild it, so if we talk about lost dollars and productivity, it's way more than the number that Doug used. Think of the auto industry. For some reason, we're prepared as a society to tolerate a deficit in automobiles between South Korea and Japan of $45 billion a year. A billion dollars equals 13,000 family--supporting jobs, just in the auto sector. We can't get into their market; they have a view that buying a Japanese car in Japan is a good thing. China has recently announced that it intends to dominate the world in renewable-energy products. A company called Suntech Power Holdings said in an interview that to build market share, it's selling solar panels on the American market for less than the cost of materials, assembly, and shipping. And we're saying that we want to be the leader in renewable energy, but we don't have a program to stimulate demand or to buy renewable-energy products that are made in America. BHAGWATI: THE problem with the opposing side is you think protecting steel will create jobs in the steel industry. But you are opening up a whole series of additional effects. One, of course, is that downstream industries typically become more uncompetitive. When President Bush put on steel tariffs, the effect was to price out a whole lot of steel-using industries, including autos. There was a famous study that about 200,000 jobs may have been lost. MACARTHUR: If you go back to the great theorists of free trade like David Ricardo and Richard Cobden, in the early 19th century they could not imagine a world in which anyone with money and power could make virtually anything anywhere in the world. These theorists, to whom Professor Bhagwati, Professor Irwin, and their colleagues cling with religious fervor, distort the debate. Since we're talking about protectionism versus free trade, essentially, we can cite some spectacularly successful protectionist schemes. Mexico-poor, beleaguered, exploited Mexico-in the '50s, '60s, and '70s had a program called import substitution, a nice way of saying "Buy Mexican." And Mexico enjoyed the highest growth rates in its history: roughly, I think, about 7 percent. SCHWAB: Buy American sounds like motherhood and apple pie, [but] unfortunately, Buy American policies hurt America and hurt Americans. In the Smoot-Hawley Tariff Act [of 1930] we raised our tariffs. It was perfectly legal under the international trading system at the time. It prolonged and deepened the Great Depression. No country has ever reached or sustained a level of prosperity with buy-national policies. The countries that grew the fastest in the 1990s were countries that opened their markets. They grew three times faster than the countries that did not open their markets. Ninety-five percent of the world's population, meaning the world's consumers, live outside our borders. Those are our customers, and if anyone thinks we've got enough money to buy our way to recovery and to future competitiveness without exports, they have another think coming. Globally, $3.5 trillion will be spent in the next several years on stimulus. China is going to be spending the vast majority of the $550 billion it's putting into stimulus on infrastructure. India is going to be spending anywhere from $20 billion to $70 billion on road construction. We need a piece of that. If you are a Caterpillar worker in Illinois, if you work for GE, if you work for any of the major manufacturers in the United States that sell to these countries, you want a part of that action. The idea that we don't manufacture anything is utterly absurd. The United States remains the single biggest manufacturer in the world, bar none: $1.7 trillion in manufacturing outputs. China is a distant second at $1.3 trillion. [And] if you look at a company like UPS, they tell us that for every 40 new packages that are shipped overseas, they hire a new American worker. MADRICK: The fact of the matter is that despite what Professor Bhagwati said, and despite his own studies, most studies find a direct negative impact from free trade on wages, and on the creation of jobs. Not by wide-eyed progressives from the New School, but by mainstream economists. I believed in Ricardian economics; I still do. Exchange is the key to economic growth. [But] fiscal policy becomes necessarily ineffective when 20 to 30 to 40 percent of every dollar we spend to pump up our economy in a recessionary emergency leaks overseas. Will there be a trade war? Darn it, I am tired of these scare tactics, tired of [claims] that there will be a repeat of the 1930s. Is China up in arms against this policy? I suspect China is now willing to talk a little bit, because they see maybe President Obama is ever so slightly serious about imposing rights he was given in international treaties to which China agreed. Is China not pushing its tires here? Of course they are. Let's stop isolating this economic theory from the real world. Don't think [the other] side is fighting an uphill battle. They won. They've won for decades. Tariffs have come down significantly. And where does America stand in terms of wages? The median male worker in America today makes less than the median male worker did, after inflation, in the 1970s. Audience members were polled before and after the debate. The first vote was 57 percent against Buy American policies to 20 percent in favor. The final vote was even more dramatic: 72 percent to 14 percent. It was the most lopsided margin in the history of the debates. Credit: Audience members were polled before and after the debate. The first vote was 57 percent against Buy American policies to 20 percent in favor. The final vote was even more dramatic: 72 percent to 14 percent. It was the most lopsided margin in the history of the debates.

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