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The Economy-Sapping Bribery Underlying The 'Buy America' Movement

By: Jens F. Laurson and George Pieler- August 6, 2013

The World Trade Organization reports that the growth rate of global trade fell sharply from over 5% in 2011 to around 2% in 2012. Note that the latter is a cut in the growth rate, not a decline in trade flows overall. Still it is a nontrivial setback to the recovery of global trade from the 2008-2009 recession.

For the most part the WTO attributes the deceleration of trade to the slower pace of recovery, especially in Europe, where that recovery has displayed a glacial pace. That begs the question why the transatlantic resurgence has been generally weak, while developing nations like the BRICS bloc, and Asia generally, and even Africa have done pretty well.

It's easier to grow faster from a lower plateau, when low-hanging growth-fruits are still dangling in near reach. But the question whether neo-protectionist post-recession trade policies contributed to slowing growth ought to get serious consideration from the WTO, as well. This is particularly critical as many major trade negotiations—for example the Trans Pacific Partnership, the U.S.-Europe agenda for a large scale trade and investment treaty—are already underway.

Reasonably, the WTO seems relieved that protectionist sentiment so far has been as mild as it was. The WTO's chief economist, Patrick Low, told France24 that the U.S.' "Buy American" initiative on government procurement (folded into the Obama stimulus package in 2009) probably restrained trade flows in a near-negligible way. No doubt that's true, since it's confined to certain categories of construction procurement and has more than a few loopholes. But does this mean that Buy American, or Buy French, or Buy Japanese, or Buy Madagascar stipulations on procurement are harmless after all?

Or could they even be a net plus for the global economy? This is the thesis proposed by economist Dean Baker, co-founder of the Center for Economic and Policy Research. He claims "Buy American" was the political price to pay that made passage of the stimulus bill possible and therefore is a vital, an enabling component of economic recovery. But Mr. Baker goes further and argues that Buy National isn't just not 'a nuisance hardly worth mentioning,' but that it needs to be available, routinely, as an option in the future.

Apparently he believes that if politicians didn't have this tool available to them in the future, they'd be happy to let the economy crash for lack of stimulus bills. As if, in other words, "Buy American" hadn't been slipped into the stimulus bill just because it was possible to include it in the first place. That the WTO has an accord discouraging domestic preference in government procurement becomes a side note… even more so given that the WTO actually officially green-lighted this particular Obama initiative as compliant with its rules.

Sallie James of the Cato Institute points out that the Dean Baker analysis reduces “Buy American” to the status of a bribe, not a policy initiative. And indeed, the imperfect analogy that comes to mind reading Baker’s Al Jazeera Editorial, would be for him to suggest that customs agents ought to have unobserved moments with their ‘customers,’ too, lest they can’t take the bribes that so smooth the flow of business which, in the big picture, really, is much more beneficial than a minor bribe is harmful.

While it is true that sometimes less-than-ideal policies might enable necessary—or ward off worse—policies (the minimum wage can, but isn’t guaranteed to) prevent much worse), that doesn’t mean bad policies should be pursued for their own sake or encouraged as available options. The Baker bribe-theory of buy-national requirements seems accurate and is insightful, political science-wise. But that is precisely why the Buy National option ought to be taken *off* the table, not be ensured to remain *on* the table.

Leaving aside the trickier questions of whether there *is* a recovery in the West, or worldwide, or whether the stimulus bill did anything to bring it about, or whether the long term effects of that stimulus will be net-positive, Buy National as lubricant for such bills is hardly sound economic policy, not nationally and not internationally. All it does is sacrifice comparative advantage to give domestic suppliers the illusion they are better off (a temporary effect at best). Buy Domestic bribes should be dropped from the repertoire altogether—preferably through binding mutual trade agreements. If that meant one less lure for those frankly phony stimulus bills, then all the better. Bargaining over extant Buy Domestic rules might bring hard, enforceable concessions that favor freer trade (bilateral or multilateral), where ‘Buy Domestic’ has become the poster child of nontariff barriers, all of which ideally should be eradicated.