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New Jersey Seduced By The False Promise Of 'Buy American' Laws

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It has been said that patriotism is the last refuge of scoundrels. Those words ring especially true this morning in New Jersey, where the legislature is poised to pass a patriotic-sounding, but fiscally-irresponsible “Buy American” law. That outcome might benefit a few scoundrel politicians looking to score points with some local producers and the unions, but it would leave New Jersey’s taxpayers and many of its employers and workers holding the bag.

At great expense to the U.S. economy, Buy American laws have governed various forms of federal and state procurement since 1933. But lawmakers in Trenton want to take Buy American restrictions to a dangerous new level that would ultimately expand the state’s nearly $1 billion budget deficit and chase job-creating, value-adding, tax-paying companies to more reasonable business environs.

Current New Jersey law already requires public works projects be sourced, primarily, with American-made products. The pending legislation – which has already passed the Senate and awaits a vote in the General Assembly today – would drastically expand coverage to nearly every state institution that procures products, including administrative agencies, universities, and public schools, limiting their choices to goods that are manufactured, grown, or mined in the United States. In today’s globalized economy, where supply chains are transnational and direct investment crosses borders, finding products that meet the U.S.-made definition is no easy task, as many consist of components made in multiple countries.

As individuals spending their own money, most New Jerseyans attempt to maximize value. That often means shopping for groceries at a big supermarket chain instead of the gourmet market or patronizing big box retail stores instead of the sporting goods or hardware store on Main Street. Shouldn’t the people of New Jersey expect Trenton to spend their tax dollars with a similar eye toward prudence and value?

The desire to insulate "our" markets, protect "our" businesses, and prevent "our" resources from leaking into other jurisdictions at "our" expense is, in some respects, natural. But the idea that keeping the dollars local will produce that outcome is misguided nonetheless. Only a basic understanding of supply and demand is needed to see that limiting competition for state procurement ensures only one outcome: that taxpayers get a smaller bang for their buck. Sure, some local companies may win contracts from the state, hire new workers, and generate local economic activity. Some. What will be less visible — but every bit as real — are the contracts denied numerous other local and U.S. companies because the state's resources have been stretched and depleted to satisfy restrictive procurement rules. Some companies may benefit, but the real value of New Jersey's state budget – the products and services it can afford — will decline.

When we artificially reduce the pool of qualified suppliers or the variety of eligible supplies that can satisfy procurement requirements, projects cost more, take longer to complete, and suffer from lower quality. If the legislation under consideration doesn't render some procurement impossible, it will at least drive up the costs of New Jersey's public spending and reduce the state's capacity to meet its obligations without raising taxes or issuing more debt. New Jersey is already saddled with the fifth-highest debt and unfunded pension liabilities per capita in the nation, and finds itself with a current budget gap nearing $1 billion.

Like every other state, New Jersey seeks investment from U.S. and foreign companies to create local jobs, spur growth, and expand the tax base. Rendering New Jersey an even higher cost place to operate by restricting the kinds of firms and products companies can have in their supply chain networks will only deter such investment – and chase existing investment away. With 228,000 New Jersey jobs provided by foreign-headquartered companies, many of which source components globally, the specter of this legislation being met with capital flight, job cuts, and a smaller tax base is quite realistic. Logistics and transportation businesses that depend on activity at the Port of Newark – through which moves over $130 billion worth of goods annually – would suffer the secondary impacts of companies relocating to more fiscally prudent states.

Moreover, adopting these rigid Buy American provisions will penalize New Jersey businesses that wish to bid on foreign procurement projects. Currently, negotiations are underway in three different forums to open up U.S. and foreign government procurement processes to international competition. New Jersey's treatment of foreign bidders and foreign products in its procurement processes undoubtedly will impact prospects for the state's goods and services exporters.

It is the responsibility of elected officials who tax, borrow, and spend to be prudent stewards of the public's finances. Yet the temptation to breach that implicit contract to advance self-serving ends so often proves irresistible. That tension helps explain the embrace of Buy American laws in Trenton. They offer a veneer of fiscal responsibility and local accountability to the electorate, under which politicians channel public resources to important political constituents.

The Buy American legislation under consideration favors the interests of some New Jerseyans as producers and service providers over the interests of all New Jerseyans as consumers and taxpayers. If the General Assembly doesn't get that, for New Jersey's sake, hopefully its governor does.

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