



## Trump's new "Buy American" executive order will just make infrastructure more expensive

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President Trump signed a new executive order Tuesday that's supposed to make it harder for federal contractors to use cheaper imported products — especially steel — when building roads and bridges with public money.

The president's order, dubbed "Buy American, Hire American," was first reported Monday by the Wall Street Journal. (The "hire American" part refers to changes to H-1B visas for highly skilled workers.) As part of the order, Trump will require all construction companies working on federally funded projects to use American-made steel.

The executive order fits with Trump's view that the US imports too many products and exports too few. Steel companies have long blamed cheap imports from China, for example, for thousands of layoffs at American steel mills. Trump, in turn, has vowed to slap more tariffs on cheap steel imports.

It's also part of a history of government action dating back to the Great Depression meant to ensure that federal dollars go toward projects using American materials. Currently, most contracts only require 50 percent of the product's value to come from American components. The 2009 stimulus bill had a "buy American" requirement, and projects that get grants from the federal Transportation Department also have to agree to use all-American materials.

Trump's order would take that a step further and require all federal contracts to use steel products made with 100 percent American components. He'd also review waivers that allow products to count as American-made if they're from countries the US has trade agreements with.

The result will be to make infrastructure projects much more expensive, because that work relies heavily on steel beams and rods, says Dan Ikenon, a trade economist at the Cato Institute, a conservative think tank in Washington, DC.

"If we limit the sources of steel to domestic producers, they can charge higher prices," says Ikenon. "Taxpayers will be getting the least bang for their buck."

While Trump's order will certainly benefit the American steel industry, it ends up harming what are known as "downstream" industries, says Ikenson, such as the construction companies that buy a lot of steel to build infrastructure. If they can't get cheaper steel from abroad, their costs go up.

### **"Buy American" laws already exist — Trump wants to make them tougher**

Federal contracts are already subject to some level of "Buy American" rules. These laws have been around since 1933 as a way to limit competition for government contracts to American companies and workers. A similar rule "Buy America" rule from 1982 required that all steel products used in federal contracts to build roads and bridges be made with 100 percent American steel.

But projects can get waivers under a few conditions. They don't have to buy American if it's deemed in the "public interest," if they can't get the products they need easily from American sources, or if buying from American producers would raise costs to an "unreasonable" level. When it comes to highway construction and other federal transportation contracts, the cost has to be 25 percent higher to be "unreasonable."

Another set of waivers allows materials made in certain countries to "count" as American. The Trade Agreements Act of 1979 says the president can waive these rules for materials imported from countries that also waive their restrictions on American imports. The United States currently has such agreements with more than 50 countries, as part of NAFTA and other trade deals. Trump's executive order will instruct federal agencies to review those waivers.

Yet reviewing these waivers won't change anything. If Trump wants to revoke the special status granted to these countries, then the United States needs to get out of the trade agreements. That will be a major headache for the administration, as it would require renegotiating more than a dozen trade deals.

"I'm sure he's looking for ways to back out of these arrangements," says Ikenson. "He's looking for an escape clause."

### **The construction industry is not happy**

Trump's fixation on protecting the steel industry has upset the construction industry. The Associated General Contractors of America, the largest trade association for the US construction industry, worries that Trump's agenda of promoting American steel will just make construction materials more expensive. Earlier this month, Trump announced that federal agencies will toughen enforcement of anti-dumping laws, which allows the United States to slap tariffs on steel imports that are sold at a cheaper price here than in their country of origin.

From March 2016 to March 2017, the cost of construction materials rose 4 percent, and the cost of steel mill products, including steel pipes, rose 19 percent. The increase in steel prices is largely the result of protective tariffs levied against foreign steel producers in recent years, which have been flooding the US market with cheaper steel from countries like China.

While the details of the executive order have not yet been released, the Wall Street Journal says that buying slabs of steel from China or India and then shaping them into beams and pipes in the United States — a common form of steel work — not longer counts as American-made steel.

The order will also make it hard for contractors to certify that steel beams and other materials are made up of 100 percent American steel, says Kenneth Simonson, chief economist for the Associated General Contractors of America. Often, foreign-made steel makes its way into steel that's produced in America.

“A mill in South Carolina can tell us they bought a ton of [steel] scrap from a US auto factory, but those scraps were probably commingled with scraps from somewhere else,” says Simonson. “It's not obvious where steel scraps come from.”

Yet Trump's changes probably won't hurt contractors as much they will hurt taxpayers, says Simonson. “Contractors will still bid on projects, but they will be more expensive and take longer to complete.”

That could prove challenging for one of Trump's other priorities — infrastructure. Trump has promised to support a congressional infrastructure spending bill to rebuild American bridges and highways.

"We are going to fix our inner cities and rebuild our highways, bridges, tunnels, airports, schools, hospitals," he promised cheering supporters on election night. "We're going to rebuild our infrastructure, which will become, by the way, second to none. And we will put millions of our people to work as we rebuild it."

So far, no actual bill has been written to make this reality. But making materials more expensive will mean that in the long term, either the bill will cost more or fewer projects will end up funded in the first place.