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Donald Trump's pledge to use only U.S. steel is loaded with caveats

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During the campaign, President Trump visited a Pennsylvania town that lost its steel mill three decades ago — an economic wound that still stung. He pledged to rebuild the country with American steel, a move he said would "create massive numbers of jobs."

On Tuesday, Trump started with oil pipelines.

He ordered the commerce secretary to draft a policy requiring the nation's pipelines to be constructed or reinforced with American-made materials "to the maximum extent possible and to the extent permitted by law." (Wilbur Ross, his top choice for the role, owned several mills before selling them in 2004.)

The command came hours after Trump signed executive orders to revive the Dakota Access and Keystone XL pipelines, two controversial projects former president Barack Obama had sought to block. It promptly sparked new debate around an old economic strategy: Does buying American actually help Americans?

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The United States is part of the World Trade Organization's Government Procurement Agreement, which prohibits members from giving special treatment to domestic suppliers or discriminating against foreign companies, goods and services. Telling contractors to use only American products would violate that rule — but Trump's memorandum left room for interpretation.

The text included a caveat similar to one found in the stimulus law Obama signed in 2009, which guided infrastructure builders who received public grants to use American wares, as long as they complied with trade agreements. They largely avoided violations with a loophole: The government could run into trouble by directly funding projects, so it sends grant or loan money to states, which have more purchase-making flexibility.

The Transportation Department also follows a heavily caveated "Buy America" policy, which prioritizes U.S.-made materials when building new buses, railways and ferries, among other transit properties.

The effects of such programs are tough to measure, wrote policy researchers Michaela Platzer and William Mallett in a 2015 report for the Congressional Research Services.

"Although the Buy America provisions have been in place in some form for almost 40 years, it is difficult to know how they have affected steel and [manufacturing] in the United States, whether measured by jobs, output, or any other indicator," Platzer and Mallett found. "Empirical evidence on the economic benefits or costs of domestic preference laws is largely lacking, in part because the effects are small compared with macroeconomic forces such as global economic growth and the related growth in demand for steel."

For example, they added: "The available data suggest that the steel produced for the Buy America market represents a small portion of total domestic demand for steel."

Buy American doesn't always mean Buy American.

The Commerce Department's pipeline proposal, Trump advised, is due in 180 days. If the text remains vague, contractors could still seek supplies from, say, Canada if domestic steel producers jacked up prices or could not accommodate orders.

"The devil's in the details," said Chris Weld, a Washington trade lawyer whose firm represents American steel companies. "This is not a mandate. But it is a message to U.S. pipeline operators to consider steps to purchase U.S.-produced iron and steel."

Earlier this week, Trump met with a group of union leaders and members at the White House, telling them he intends to create American jobs through his proposed infrastructure investment. Trump's team is now considering a list of projects, including bridges and railways, that would together cost roughly $137 billion, reports show.

The Keystone XL and Dakota pipelines are the first White House-backed construction projects of the Trump era.

"We are — and I am — very insistent that if we're going to build pipelines in the United States, the pipe should be made in the United States," Trump said Tuesday.

White House spokesman Sean Spicer said the action demonstrates his commitment to boosting U.S. steel, in particular.

"This is the first step," Spicer said. "And the president really delivered on his campaign promise to put American steel back at the backbone of the U.S. economy."

In a statement Tuesday, Thomas Gibson, president of the American Iron and Steel Institute, a national industry advocacy group, praised Trump for his focus on American steel and manufacturing.

"Taken together," he said, "building these pipelines, ensuring key markets for domestic steel and pipe products, and lowering the burdens to manufacturing in the U.S., will help ensure that our industry remains highly productive and internationally competitive."

The beneficiaries of the domestic-first rules, of course, would be U.S. steel producers, which concentrate in the industrial Midwest and the South.

Some economists and leaders in the broader business community, however, have long opposed protectionist measures, arguing they delay projects and drive up costs. (In their 2015 report, Platzer and Mallett concluded such outcomes are possible, but no evidence supports that happens on a large scale.)

"Only a basic understanding of supply and demand is required to see that limiting competition for procurement projects ensures one outcome: taxpayers get a smaller bang for their buck," Daniel Ikenson, a trade scholar at the Cato Institute, a right-leaning think tank in Washington, wrote this week. "Sure, some U.S. companies will win bids, hire new workers, and generate local economic activity. What will be less visible — but every bit as real — are the contracts denied numerous other U.S. businesses and workers because the resources have been stretched and depleted to satisfy restrictive procurement rules."

Others feel the mere appearance of protectionism could strain trade relations, even if a "Buy American" declaration comes wrapped in caveats.

"Key words like 'buy American' are troubling," Jorge Guajardo, Mexico's former ambassador to China, told McClatchy last week. "That goes against the whole essence of NAFTA. Because the whole essence of the North American Free Trade Agreement is you do not distinguish between countries as you buy. There are rules."

While construction generates economic bumps, there's no evidence Trump's preference for domestic steel in infrastructure projects will jumpstart the industry. To start, most steel used on American soil already is produced in the United States: 71 percent last year, according to the American Iron and Steel Institute, an industry advocacy group.

The steel jobs started vanishing as technology advanced, allowing companies to produce more steel with less muscle. The AISI data shows the industry reached its employment peak at 650,000 workers in 1953. By 2015, that number had shrunk to 142,000. Labor productivity, however, has increased fivefold since 1980, surging from an average of 10.1 man-hours per ton to an average of 1.9.

Leo Gerard, international president of the United Steelworkers, a North American union with more than 800,000 U.S. and Canadian members, said he expects Trump's pipeline plan will create more steel jobs. But he doesn't expect the president's infrastructure goals will restore the industry to its former power.

"I don't want to be specific about one project," he said. "The important thing is we've got a substantial discussion going on about working on America's infrastructure. There are pipelines all over the place that need to be refurbished."