



AMERICAN  
COMPASS

# Local Content Requirements

SPUR PRIVATE INVESTMENT, INNOVATION, & COMPETITION  
BY GUARANTEEING DEMAND FOR DOMESTIC PRODUCTION

## WHAT'S THE PROBLEM?

Years of misguided economic and trade policy have encouraged **offshoring of industrial production** and entrenched supply chains abroad.



America's domestic industry has declined as a result, with **investment declining, expertise eroding, and output stalled.**

Loss of manufacturing also degrades the **long-term ability to innovate** and leaves the U.S. dependent on other nations for critical goods.

## AMERICA TRADED AWAY ITS INDUSTRIAL EDGE

For decades, policymakers have promoted the idea that goods should be made wherever is cheapest. The result is that low-cost imports, made artificially cheap by foreign subsidies, have reduced demand for domestic products, while offshoring of industrial capacity in pursuit of lower costs has diminished America's ability to compete or innovate.

The U.S. industrial commons has been degraded, U.S. investment in physical capital has declined, American know-how has atrophied, and many critical goods like semiconductors and pharmaceuticals are now made largely overseas. Industrial decline triggers a vicious cycle that is difficult to escape, as weak investment erodes domestic advantages, begetting weaker investment.

The end result is diminished job opportunities and collapsing communities, fragile supply chains, and dependency. The more dependent the U.S. is on China, the more control China has over our national security. The more production happens overseas, the more vulnerable we are to price shocks or shortages due to crisis or conflict. But each investor, surveying the landscape, still finds it wiser to build the next factory somewhere far away.

## WHAT'S THE SOLUTION?

Policymakers should implement local content requirements (LCRs) for goods that are critical for national security or the industrial base. LCRs specify a percentage of domestic labor or parts that a good must contain to be sold in the U.S.

Legislation should:

- 1** Authorize the Department of Commerce and Department of Defense to list goods critical to U.S. national security or the domestic industrial base
- 2** Establish a 50% domestic content requirement for those goods to be sold in the U.S.
- 3** Define "domestic content" as the sum value of domestic labor and domestically sourced intermediate goods

## DOMESTIC DEMAND WILL SPUR INVESTMENT

These requirements will ensure a guaranteed level of domestic demand that the private sector can determine how to fulfill.

This guaranteed domestic demand will support a more robust U.S. industrial base and promote investment and innovation, replacing the vicious cycle of industrial decline with a virtuous one of expansion.



## FREQUENTLY RAISED OBJECTIONS

### “THESE REQUIREMENTS WILL HARM ENTREPRENEURSHIP AND INNOVATION”

LCRs guarantee domestic demand, but don't mandate how to meet that demand. Market forces will apply all their traditional pressure to induce innovation and reward entrepreneurial drive.

### “SPECIAL INTEREST GROUPS WILL RIG THE REQUIREMENTS”

Special interest groups are an inevitable feature of the global trading system. They already play an outsized role in setting the terms of the trade agreements that encourage offshoring. Policymakers should at least take aim at the right goal: ensuring robust domestic investment and supply chains.

### “THIS IS INCONSISTENT WITH THE AMERICAN SPIRIT OF FREE MARKETS”

American economic policy has always nurtured domestic industries. The American System, as articulated by Alexander Hamilton, Henry Clay, and Abraham Lincoln, supported deliberate development of the American industrial base. LCRs are also a consistent feature of Free Trade Agreements, and federal procurement.



## FURTHER READING

Michael Lind. “On Domestic Sourcing.”  
*American Compass*, 2020.

A policy essay outlining the benefits of local content requirements.

“The Balancing Act.”  
*American Compass*, 2022.

An in-depth exploration of policy options to reverse the harms of globalization.

Wells King & Dan Vaughn, Jr.  
“The Import Quota That Remade the Auto Industry.”  
*American Compass*, 2022.

A case study on President Reagan's cap on cars imported from Japan and its effects on the American automotive industry.

Senator Josh Hawley and Representative Claudia Tenney.  
“Make It in America to Sell It in America Act” 2021.  
A bill that would allow the Departments of Commerce and Defense to implement and enforce local content requirements as described in this brief.

## KEY FACTS

**\$60B** U.S. trade balance for Advanced Technology Products in 1992<sup>1</sup>

**-\$191B** U.S. trade balance for Advanced Technology Products in 2020<sup>2</sup>

**50%** Decline in net private domestic investment as a percent of U.S. GDP from 1980s to 2018<sup>3</sup>

**4.6M** Decline in manufacturing workers from (1990–2019)<sup>4</sup>

**\$29B** Decline in domestic pharmaceutical and medicine manufacturing output (2010–2020)<sup>5</sup>

## ABOUT AMERICAN COMPASS

Our mission is to restore an economic consensus that emphasizes the importance of family, community, and industry to the nation's liberty and prosperity. American Compass is a 501(c)(3) nonprofit organization.

For more information, visit [americancompass.org](https://americancompass.org)

<sup>1</sup> U.S. Census Bureau

<sup>2</sup> U.S. Census Bureau

<sup>3</sup> Senator Marco Rubio. American Investment in the 21st Century: Project for Strong Labor Markets and National Development. 2019.

<sup>4</sup> “All Employees, Manufacturing (MANEMP).” Federal Reserve Bank of St. Louis, U.S. Bureau of Labor Statistics, 2022.

<sup>5</sup> “Employment and Output by Industry.” U.S. Bureau of Labor Statistics, 2022.