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BACKGROUNDER

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Trade and Prosperity in the States: The Case of Alabama

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Abstract

International trade and investment support hundreds of thousands of Alabama jobs. More than 97,000 jobs depend on exports, and another 97,000 jobs have been created by foreign investment. The state's economy is weakened by special-interest barriers that increase prices and make it difficult for Alabama businesses to compete in the global economy. Alabama's congressional delegation should support policies that reduce the federal government's power to interfere with how Alabamans spend their hard-earned dollars.

Key Points

- Nearly 10 percent of private-sector jobs in Alabama depend on international trade and investment. The state's labor force increasingly depends on exports to countries like Canada, China, Germany, and Mexico, along with investment from countries like Japan, Germany, and the United Kingdom.
- The claim that trade has reduced overall Alabama employment is false. In fact, hundreds of thousands of jobs have been created in Alabama since NAFTA took effect and since China joined the World Trade Organization.
- U.S. trade barriers drive up the cost of shoes and clothing for Alabama families. They also make it harder for Alabama carmakers, candy manufacturers, and other businesses to compete in the global economy.
- Alabama's congressional delegation should support efforts to reduce taxes on imports of intermediate goods, and should encourage trade agreements that reduce barriers to mutually beneficial trade and investment between people in Alabama and the rest of the world.

The freedom of Alabamans to do business with people around the world is increasingly important to the state's economic well-being. Jobs created by exports and foreign investment account for nearly 10 percent of Alabama's private-sector employment, an amount that is likely to grow as global barriers to trade and investment fall.[1]

International commerce supports hundreds of thousands of Alabama jobs, including jobs in industries that export to foreign markets, jobs that rely on imported inputs, jobs created by foreign investment in Alabama, and jobs in the retail, wholesale, and transportation industries. Employment in these industries has been aided by lower transportation costs, new technologies, and trade agreements that lowered U.S. and foreign trade barriers. Alabama's representatives should encourage continued reductions in government barriers to trade and investment.

Alabama's Roots in Free Trade

Trade policy was a key topic of the 2016 presidential campaign. While trade policy seems controversial today, it was even more hotly debated

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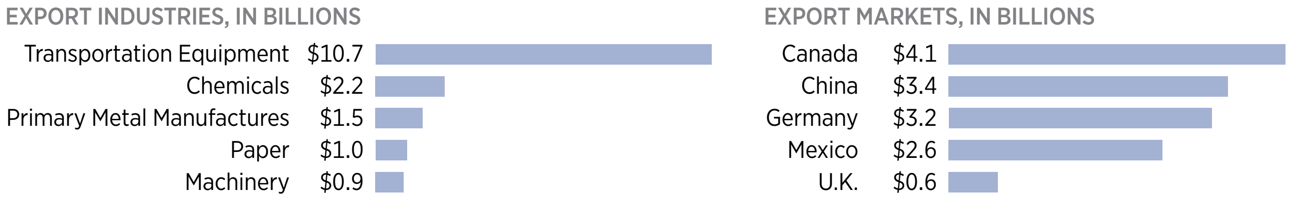
CHART 1

Alabama's Leading Exports in 2016



SOURCE: U.S. Department of Commerce International Trade Administration, "Alabama Exports, Jobs, and Foreign Investment," http://www.trade.gov/mas/ian/statereports/states/al.pdf (accessed August 29, 2017).

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early in U.S. history. Taxes on imports—also known as tariffs—were an important source of early revenue for the federal government. Politically powerful manufacturers in the North thought that import taxes should also be used to protect them from foreign competitors.[2]

However, like most Southerners at the time, Alabama's elected officials believed tariffs should only be used to raise revenue for the federal government, not to protect industries from international competition. For example, Alabama governors Gabriel Moore and John Murphy opposed legislation like the 1828 "tariff of abominations," which increased the price of manufactured goods in Southern states and impeded Alabama's cotton exports.[3]

In 1842, Alabama Representative Dixon H. Lewis made the following comments about free trade versus protectionism on the floor of the U.S. House of Representatives:

> Where is this system to stop? Are these heavy exactions [tariffs] to last forever? When, in fact, will manufacturers stand alone, and chew their own food? When will they realize the promises, so long given, to cheapen goods even below the foreign market? Certainly not under a continuance of high duties, for the avowed object of duties is to prevent manufactures from reaching their cheapest point. We have submitted to this system for more than twenty-six years, and yet the manufacturers are as intent on imposing duties as they were in 1816, and infinitely more insolent in demanding them. Then they came cap in hand, and asked as a favor what they now claim as a right. Then they promised, if protected for awhile, they would be able to furnish goods cheaper than they could be imported from abroad. Now, after twenty-six years of protection, without showing that a single article has reached the point when it can dispense with the further aid of high duties, we are called upon, by the imposition of still higher duties, to give a new lease to the life of this wicked policy.[4]

Although special-interest "protective" tariffs are widely accepted today, Alabama's state legislature used to view them as unconstitutional abuses of government power.[5] The Alabama House and Senate issued a joint statement in response to the 1928 tariff of abominations:

> Its natural offspring is monopoly, and its natural tendency is to divide the community into nabobs and paupers, to accumulate overgrown wealth in the hands of the few, and to extend the poverty, the vices, and the miseries of the many. If our rights must be usurped, and our wealth drained to pamper monopolists, we will yield them only when the last inch of ground has been defended with the spirit of freemen.[6]

How Trade Benefits Alabama Businesses and Workers

Alabamans could use a healthy dose of that anti-tariff, pro-trade sentiment today. In recent years, reductions in U.S. and foreign trade barriers have provided major benefits for people in Alabama. Nearly 100,000 jobs depend on exports.[7]

Alabama's exports have never been higher. Exports from Alabama have increased by more than 40 percent over the last 10 years; since 2000, Alabama's exports have increased by 179 percent.[8] Leading export markets include Canada, China, Germany, and Mexico. Auto products lead the state's exports, followed by metals, chemicals, aerospace products, and agricultural goods.[9]

Altec, Inc., located in Birmingham, provides an example of the benefits of trade for Alabama manufacturers. Altec, which was recently featured in the Trump Administration's "Made in America" campaign, makes bucket trucks and other products used by electric utility, telecommunications, tree care, and other industries in more than 100 countries.[10]

Thousands of Alabama jobs rely on trade—both exports and imports. For example, more than 29 million tons of goods were transported via the Port of Mobile in 2015. According to the Alabama State Port Authority, the port directly and indirectly supports over 124,000 jobs.[11]

In addition to exports of goods, Alabama business also exported over $4.5 billion dollars of services like business and travel services as of 2014.[12]

How Trade Benefits Alabama Farmers and Ranchers

Alabama's agricultural exports have doubled since 2000.[13] Exports account for nearly one-fifth of Alabama's agricultural production.[14] Leading agricultural exports include poultry, cotton, and oilseeds.[15]

Alabama farmers and ranchers receive 10 times as much income from exports as they do from federal subsidies and loans.[16] Only about 33 percent of Alabama's farms receive federal support, but nearly 100 percent of farms benefit either directly or indirectly from exports.[17]

U.S. Department of Agriculture Secretary Sonny Perdue recently announced the creation of an Under Secretary for Trade in the Department of Agriculture. According to Perdue,

> Food is a noble thing to trade. This nation has a great story to tell, and we've got producers here that produce more than we can consume. And that's good, because I'm a grow-it-and-sell-it kind of guy. Our people in American agriculture have shown they can grow it, and we're here to sell it in markets all around the world.[18]

According to Representative Robert Aderholt (R–AL), "An undersecretary of trade whose whole mission is to ensure that we have open markets to provide proteins and produce will only make our rural economy that much stronger."[19]

The Impact of Trade on Jobs

Critics falsely claim that trade has cost Alabama thousands of jobs. In fact, since the North American Free Trade Agreement (NAFTA) took effect in 1994, Alabama has *added* 414,000 net new jobs. Since 2002, just after China joined the World Trade Organization (WTO), Alabama employment increased by 227,000 jobs.

In 1993, few members of Alabama's congressional delegation supported NAFTA or the Uruguay Round trade agreement that created the WTO. Both Senators voted against those deals, as did five of the state's seven Representatives.

But more recently, support for trade has been stronger. In 2011, for example, both Alabama Senators and all but one Representative voted to approve the U.S.–Korea and U.S.–Colombia free trade agreements.[20]

Although Alabama, like most states, has fewer manufacturing jobs than it did in the past, trade is not to blame. The downturn in the number of manufacturing jobs is the result of increased productivity by Alabama workers. Manufacturing gross domestic product (GDP) per worker in Alabama was two-and-a-half times higher in 2015 than it was in 1994.[21]

How Trade Facilitates International Investment to Create Alabama Jobs

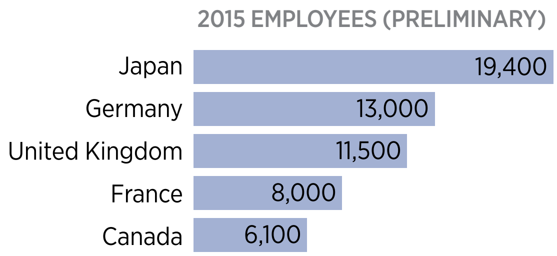
International flows of goods and services tell only half the story of trade's benefits for Alabama._ Alabama workers benefit significantly from international investment. When Alabamans buy foreign goods, a share of the dollars they spend is used by foreigners to buy goods and services produced in the U.S. Another large share returns in the form of foreign investment that creates jobs in the U.S., including in Alabama. According to Mobile Area Chamber of Commerce President Bill Sisson, "Eight of our top 10 manufacturers are internationally headquartered. We have some 49 businesses that are internationally headquartered in this area, employing well over 13,000 people."[22]

Nearly 100,000 Alabama workers are employed by foreign-owned companies ranging from Airbus to Voestalpine. These companies provide 3.7 percent of the state's private-sector jobs.[23]

According to Representative Terri Sewell (D–AL), jobs generated by foreign investment are crucial to the state:

CHART 2

Alabama's Top Five Sources of Foreign Investment Jobs



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, "Activities of U.S. Affiliates of Foreign Multinational Enterprises: Preliminary 2015 Statistics," https://bea.gov/international/fdius2015_preliminary.htm (accessed August 29, 2017).

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> There are a lot of jobs that are not going to come back to America or back to the Deep South, but that doesn't mean that we don't promote the opportunities that are coming this way. I think that it's so important that we leverage the fact that we have Mercedes Benz and Hyundai and all of these amazing manufacturing opportunities.[24]

How Anti-Trade Policies Harm Alabama's Economy

Clothing Taxes. Americans are gouged on a daily basis by double-digit taxes on imported products like shoes and T-shirts. In 2016, the average U.S. tariff rate for shoes and clothing was 13.1 percent—which is more than 13 times higher than the average tax on other imports. Clothing and shoes account for 5 percent of U.S. imports, yet duties on textiles and apparel generate 40 percent of U.S. tariff revenue.[25]

These import taxes cost Alabamans more than $200 million in 2016.[26] They are especially harmful to low-income consumers in Alabama and across the country.[27]

Trade Restrictions and Overseas Relocations. In contrast to foreign investment, which creates gainful employment in Alabama, trade restrictions can force U.S. firms to relocate overseas to avoid the higher costs of production that come with protectionism.

For example, politically powerful U.S. sugar producers have secured import restrictions to prop up sugar prices. Since 2000, the U.S. sugar program has cost Americans more than $47 billion in higher prices.[28] This has been especially harmful for sugar-using companies. When partial production of Oreo cookies (main ingredient: sugar) moved from Chicago to Mexico, 600 Americans lost their jobs.

The sugar program drives up costs for companies like Irondale's Pucker Powder candy company. Pucker Powder is an exporting success story, with about 30 percent of its earnings coming from sales to other countries.[29] The company's founder, Scott Green, gave one example of how the sugar program affects his business:

> We purchase Cane Sugar "Centers" from Mexico for our Pucker Powder Bits Product. This being a 40 percent by weight base for this product, we have found that domestic suppliers cannot match the cost needs. Assuming sugar prices could line up in the U.S. with international costs, we would be able to source this important ingredient domestically.[30]

Because of the federal sugar program, U.S. sugar prices do not line up with international costs. Since 2010, average refined sugar prices have been 65 percent higher in the United States than in the rest of the world.

"Buy American" Laws. Many U.S. government policies have unintended harmful consequences. Buy American laws, for instance, require government agencies to buy only U.S.-made inputs, instead of allowing them to buy the best-made products at the best prices.

Those federal mandates are costly for taxpayers, but they also have unexpected costs for steelmakers like Alabama's ArcelorMittal/Nippon Steel Calvert (AM/NS Calvert).[31] The high-tech steel manufacturer, which calls itself "the world's most advanced steel finishing facility," converts imported steel slab into products used by the automotive, construction, pipe and tube, service center, and appliance/HVAC industries.[32] According to an executive order from President Trump, signed on April 18, 2017, all Buy America and related laws that provide a preference for U.S.-made steel will exclude steel made by AM/NS Calvert and other companies that use imported steel slab.[33]

As Heritage Foundation policy analyst Tori Whiting explains:

> For iron and steel goods, the order defines "produced in the United States" as the initial melting, as well as coating processes, having taken place in the U.S. This process-based definition, found mostly in more recent "Buy America" laws and provisions (confusingly given the same name, save the absence of the "n"), is much more stringent than the definition found in the Buy American Act of 1933.[34]

Thus, the Buy American order penalizes not just foreign steelmakers, but U.S. steelmakers like AM/NS Calvert that use imported slab. ArcelorMittal, the co-owner of AM/NS Calvert**,** may also have competing internal interests because it owns other U.S. plants that do not rely on imported slab.

The Associated General Contractors of America called these Buy American requirements an "antiquated" standard that could "specifically exclude certain American companies and jobs over others."[35]

Steel Restrictions. On April 20, 2017, President Trump directed the Secretary of Commerce to review steel imports and recommend actions to "adjust" steel imports to protect national security.[36]

In the past, steelmakers like Nucor and U.S. Steel advocated for import restrictions to reduce competition not just from foreign steelmakers, but also from *domestic* competitors who rely on imported slab.[37] In 2001, the CEO of U.S. Steel urged "the President to act quickly to adopt 40 percent tariffs on all flat-rolled imports, including slabs." According to Nucor's CEO: "It is crucial that the same tariff be applied to all product categories, including semi-finished slab and rebar."

Restrictions on steel imports would be harmful for Alabama auto workers. Hyundai Motor Manufacturing Alabama (HMMA) employs more than 3,000 people at its $1.7 billion Montgomery plant.[38] The president of Greenville-based Hyundai Steel America explained how these jobs are threatened by proposed restrictions on imported steel:

> Hyundai Motor Manufacturing Alabama and Kia Motor Manufacturing Georgia have to plan to invest about $3.1 billion in upgrading and expanding their U.S. manufacturing operations. The investment in these automobile facilities was based on the assumption that HMMA and KMMG would be able to purchase high quality cold-rolled corrosion-resistant steel from domestic and imported sources. Roughly 10 percent of Hyundai Steel requirements are not available from domestic steel manufacturing in the quality and tolerance requirements. Hyundai's access to steel is threatened by this action.[39]

Restrictions on imported steel would harm all Alabama industries that rely on steel, including auto manufacturing and construction companies.

The Jones Act. Protectionist restrictions on services can be just as harmful as restrictions on imports of goods. The Jones Act requires all ships that transport goods within U.S. waters to be U.S.-built, U.S.-owned, and at least 75 percent U.S.-crewed. These requirements restrict traffic for U.S. ports. According to the director of the Fletcher Maritime Studies Program, "The Jones Act remains a fundamental roadblock to large scale coastal shipping between US ports."[40]

The ban on the use of foreign-built vessels was felt by the Gulf Coast following the 2010 BP oil spill. At that time, Alabama author Winston Groom, of *Forrest Gump* fame, wrote:

> Does anyone share my outrage that there are not nearly enough, nor large enough, oil skimming craft in the Gulf of Mexico to protect our coast? There are numerous oil removal ships available right now that could be sweeping up the huge oil slicks heading for our shores, but various U.S. government regulations and red tape have prevented them from coming here.
>
> For two months, 13 oil-producing countries plus the United Nations have offered to send us their huge oil-skimming tankers and other vessels. But the Obama administration has dragged its feet on accepting these generous offers because of a labor-union law called the Jones Act that permits only U.S.-built ships crewed by U.S. seamen to operate in U.S. waters.
>
> A hundred years from now, someone is going to write the history of this tragedy/fiasco, and will likely record that if there was a single scandal attached to the so-called cleanup, it was the lack of proper craft to contain and remove the oil

> before it came on shore. And the worst part will be that this was caused by our own government in Washington.[41]

The Jones Act is bad for Alabama, and it is even more harmful to places like Puerto Rico and Hawaii, which rely on waterborne transportation for their goods. Puerto Rico is on the brink of bankruptcy, and some have called for a federal bailout. According to a study by the Federal Reserve Bank of New York:

> It costs an estimated $3,063 to ship a twenty-foot container of household and commercial goods from the East Coast of the United States to Puerto Rico; the same shipment costs $1,504 to nearby Santo Domingo (Dominican Republic) and $1,687 to Kingston (Jamaica)—destinations that are not subject to Jones Act restrictions.... Shipping goods to and from Puerto Rico costs considerably more than shipping to and from the Island's regional peers, imposing an important cost on Puerto Rican businesses and dampening the economy's competitiveness. Much of this relatively high cost of shipping is widely attributed to the Jones Act.[42]

Heritage Foundation analysts observed that exempting Puerto Rico from the Jones Act's protectionist provisions would be equivalent to "effectively giving everyone on the island a raise."[43]

Representative Gary Palmer (R–AL) incurred criticism by supporting Puerto Rico's exemption from the Jones Act. Palmer observed: "Relief from the Jones Act would allow the cost of living in Puerto Rico to decline, allowing residents to stretch their wages further than before."[44] Lobbyists for the Jones Act quickly mobilized to attack Palmer. According to the president of the Shipbuilders Council of America, "[W]e are disappointed that Rep. Palmer seems to be more focused on political maneuvering than on protecting our nation's domestic and economic security. Exempting Puerto Rico from the Jones Act would do nothing to address island's debt crisis."[45] The treatment of Rep. Palmer shows how difficult it can be to stand up to crony capitalists.

Tariffs on Intermediate Goods. More than 60 percent of goods imported to the U.S. each year are considered intermediate goods—parts used to make final goods or capital goods like machinery.[46] Access to competitively priced intermediate goods, regardless of origin, is crucial for manufacturers in Alabama. In 2016, auto parts used by Alabama autoworkers accounted for 82 percent of the state's top 25 imports.[47] Restricting inputs of these parts would jeopardize Alabama jobs. Policymakers should remove taxes on imports used by Alabama autoworkers, such as the 2.5 percent tariffs on imported auto parts.

Trade Is Vital for Alabama

Early in U.S. history, Alabama fought against special-interest trade barriers that held down the state's economy. Today, the federal government continues to pick winners and losers through policies like the Jones Act, sugar barriers, and taxes on imported parts used by the state's workers. Alabama policymakers and their constituents should take the lead in eliminating these destructive federal government policies.

*—**Bryan Riley** is Jay Van Andel Senior Policy Analyst in Trade Policy in the Center for Free Markets and Regulatory Reform, of the Institute for Economic Freedom, at The Heritage Foundation.*

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