

# BACKGROUND

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## Trade and Prosperity in the States: The Case of Wisconsin

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### Abstract

*Businesses in Wisconsin exported \$21 billion in goods in 2016. More than 8,000 businesses, employing nearly 119,000 Wisconsinites, export goods to countries around the world each year. In 2014, 90,000 Wisconsinites owed their jobs to foreign direct investment, representing 3.7 percent of all private-sector employment in the state. Access to competitively priced intermediate goods is crucial for manufacturers in Wisconsin. In 2016, Wisconsin's goods imports were valued at \$22.4 billion, including intermediate goods like engine parts, wood pulp, static convertors, and tube fittings. Wisconsin's congressional delegation should encourage the Trump Administration to make eliminating additional U.S. and foreign tariff and non-tariff barriers the main priorities in any impending negotiations.*

International trade and investment supports one in five private-sector jobs in Wisconsin. The state's manufacturers depend on competitively priced intermediate goods, sourced domestically and internationally, to produce finished goods.

Wisconsin's elected officials demonstrated in their last free trade agreement (FTA) votes that trade is a vital aspect of the state's economy. Both Senators and all but two Representatives voted in favor of the FTAs with South Korea and Panama. Wisconsin's elected officials should continue to strongly support free trade.

While trade agreements can effectively and efficiently lower or even eliminate tariffs or non-tariff barriers for all countries involved, they are not the only mechanisms available to make it easier for Wisconsin businesses to compete in the global economy. Wisconsin's elected officials should support elimination of tariffs on imports that

### KEY POINTS

- Businesses in Wisconsin exported \$21 billion in goods in 2016. More than 8,000 businesses, employing nearly 119,000 Wisconsinites, export goods to countries around the world each year. Wisconsin service exports grew by 77 percent between 2006 and 2015 to \$6.2 billion, supporting more than 46,000 jobs.
- Millions of Americans each year are employed by foreign companies that decide to invest in America. In 2014, 90,000 Wisconsinites owed their jobs to foreign direct investment, representing 3.7 percent of all private-sector employment in the state.
- Access to competitively priced intermediate goods is crucial for manufacturers in Wisconsin. In 2016, Wisconsin's goods imports were valued at \$22.4 billion, including intermediate goods like engine parts, wood pulp, static convertors, and tube fittings.
- Wisconsin's congressional delegation should encourage the Trump Administration to make eliminating additional tariff and non-tariff barriers the main priorities in any impending negotiations.

This paper, in its entirety, can be found at <http://report.heritage.org/bg3241>

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CHART 1

## Wisconsin's Leading Exports in 2016

### EXPORT INDUSTRIES, IN BILLIONS

Machinery	\$4.1	
Computers & Electronics	\$2.9	
Transportation Equipment	\$2.3	
Chemicals	\$2.0	
Processed Foods	\$1.9	

### EXPORT MARKETS, IN BILLIONS

Canada	\$6.6	
Mexico	\$3.1	
China	\$1.4	
Japan	\$0.9	
United Kingdom	\$0.8	

**SOURCE:** U.S. Department of Commerce International Trade Administration, "Wisconsin Exports, Jobs, and Foreign Investment," <http://www.trade.gov/mas/ian/statereports/states/wi.pdf> (accessed August 8, 2017).

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are used as inputs, because they are self-destructive measures that only make end goods more expensive for consumers.

### Exports Support Wisconsin Jobs

Businesses in Wisconsin exported \$21 billion in goods in 2016. More than 8,000 businesses, employing nearly 119,000 Wisconsinites, export goods to countries around the world each year. Of these exporting companies, 87 percent are small or medium-sized.<sup>1</sup> Wisconsin service exports grew by 77 percent between 2006 and 2015 to \$6.2 billion, supporting more than 46,000 jobs.<sup>2</sup>

Machinery, computer and electronic products, transportation equipment, chemicals, and processed foods are the top five export industries in Wisconsin. More than 19 percent of all goods exports from the state were in the machinery category in 2016, valued at just over \$4 billion. Goods exports from the four other categories were valued at \$1.9 billion (processed foods), \$2 billion (chemicals), \$2.3 billion (transportation equipment), and \$2.9 billion (com-

puter and electronic products).<sup>3</sup>

America's North American Free Trade Agreement (NAFTA) partners, Canada and Mexico, are Wisconsin's top export markets, consuming \$6.6 billion and \$3.1 billion, respectively, in U.S. goods in 2016. China, Japan, and the U.K. complete the state's top five export markets. More than half of all exports from Wisconsin go to America's 20 free trade partners.<sup>4</sup>

### Wisconsin Ranks Eighth in Manufacturing Output

Manufacturing is a robust and prominent industry in Wisconsin. The state was ranked eighth in 2016 in terms of manufacturing output as a percentage of gross state product, amounting to 18.2 percent.<sup>5</sup> In 2016, 94 percent of Wisconsin's total exports were manufactured goods, an increase of nearly 7 percent since 2010.<sup>6</sup>

More than 460,000 Wisconsinites are employed in the manufacturing industry each year.<sup>7</sup> Employment in the industry is largely driven by small busi-

1. U.S. Department of Commerce, International Trade Administration, "Wisconsin Exports, Jobs, and Foreign Investment," February 2016, <http://www.trade.gov/mas/ian/statereports/states/wi.pdf> (accessed August 3, 2017).

2. Coalition of Services Industries, "U.S. Services Exports: Wisconsin," 2015, [https://servicescoalition.org/images/services\\_exports\\_2017/Wisconsin.pdf](https://servicescoalition.org/images/services_exports_2017/Wisconsin.pdf) (accessed August 3, 2017).

3. U.S. Department of Commerce, International Trade Administration, "Wisconsin Exports, Jobs, and Foreign Investment."

4. Ibid.

5. U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product by State (Millions of Current Dollars)," <http://www.bea.gov/regional/> (accessed August 3, 2017).

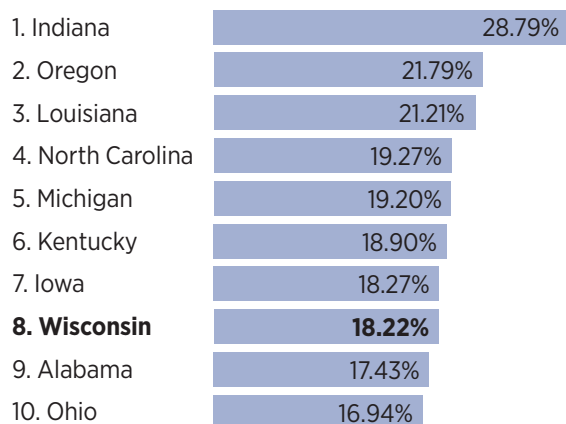
6. National Association of Manufacturers, Center for Manufacturing Research, "Wisconsin Manufacturing Facts," 2017, <http://www.nam.org/Data-and-Reports/State-Manufacturing-Data/State-Manufacturing-Data/April-2017/Manufacturing-Facts---Wisconsin/> (accessed August 3, 2017).

7. Wisconsin Economic Development Corporation, "Manufacturing Industry Profile," <http://inwisconsin.com/wp-content/uploads/2016/04/Manufacturing-Industry-Profile.pdf> (accessed August 3, 2017).

CHART 2

## Manufacturing Output Rankings

MANUFACTURING AS A PERCENTAGE OF 2016 STATE GDP



**SOURCE:** U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product (GDP) by State 2016," <https://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=2#reqid=70&step=1&isuri=1> (accessed August 8, 2017).

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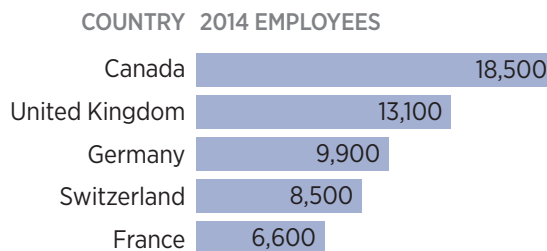
nesses, which provide 46 percent of all manufacturing jobs.<sup>8</sup> Nearly 50 percent of Wisconsin jobs supported by foreign direct investment are in the manufacturing sector.<sup>9</sup>

### Removing Tariffs on Intermediate Goods

More than 60 percent of goods imported in the U.S. each year are considered intermediate goods, compo-

CHART 3

## Wisconsin's Top Five Sources of Foreign Investment Jobs



**SOURCE:** U.S. Department of Commerce, Bureau of Economic Analysis, "Employment by State and Country 2007-2014," <https://bea.gov/international/diifdiop.htm> (accessed August 8, 2017).

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nents used to make final goods or capital goods like machinery.<sup>10</sup> Access to competitively priced intermediate goods, regardless of origin, is crucial for manufacturers in Wisconsin. In 2016, Wisconsin's goods imports were valued at \$22.4 billion. Intermediate goods like engine parts, wood pulp, static convertors, and tube fittings are among the state's top 25 import categories.<sup>11</sup>

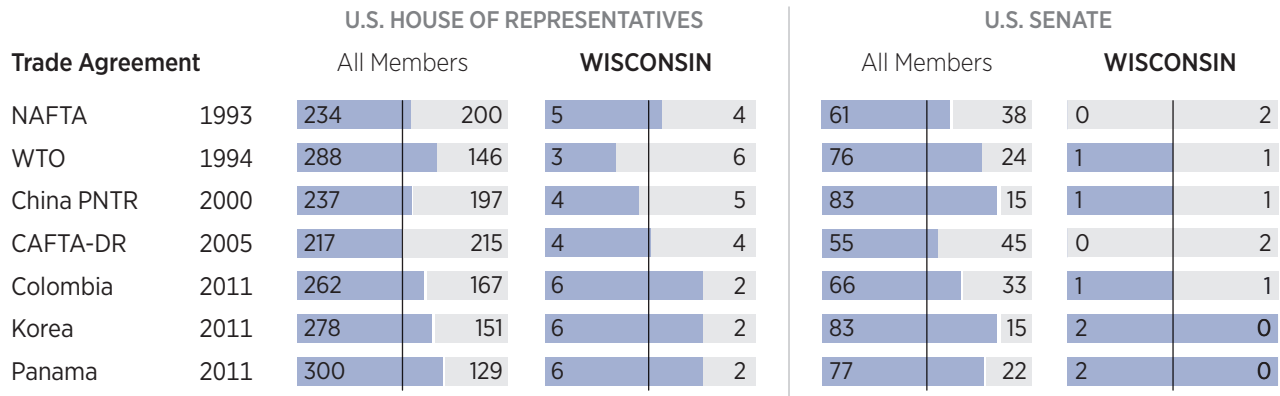
Between 2013 and 2016, American manufacturers paid an estimated additional \$748 million in tariffs that would have been eliminated by a miscellaneous tariff bill (MTB), according to the National Association of Manufacturers.<sup>12</sup> The cost of tariffs on all inputs is much higher. Bryan Riley, senior policy analyst at The Heritage Foundation, states that "[p]ermanently eliminating tariffs on inputs is a trade policy that would be guaranteed to encourage more job-creating invest-

8. Brittany Rockwell, "Small Businesses Drive Wisconsin, U.S. Economy," Wisconsin Manufacturers and Commerce, July 18, 2017, <https://www.wmc.org/news/small-businesses-drive-wisconsin-u-s-economy/> (accessed August 8, 2017).  
 9. Organization for International Investment, "Jobs by State: Wisconsin," <http://www.ofii.org/resources/jobs-by-state/wisconsin> (accessed August 3, 2017).  
 10. Tori K. Whiting, "Buy American Laws: A Costly Policy Mistake That Hurts Americans," Heritage Foundation *Backgrounder* No. No. 3218, May 18, 2017, <http://www.heritage.org/trade/report/buy-american-laws-costly-policy-mistake-hurts-americans>.  
 11. U.S. Department of Commerce, Bureau of the Census, Foreign Trade, "State Exports from Wisconsin," <https://www.census.gov/foreign-trade/statistics/state/data/imports/wi.html> (accessed August 3, 2017).  
 12. National Association of Manufacturers, "The Miscellaneous Tariff Bill," <http://www.nam.org/Issues/Trade/MTB/2016-MTB-flyer/> (accessed August 3, 2017).  
 13. Bryan Riley, "A Trade Policy that Puts Americans First," Heritage Foundation *Backgrounder* No. 4553, April 28, 2016, <http://www.heritage.org/trade/report/trade-policy-puts-americans-first>.

CHART 4

## How Wisconsin Voted on Trade Agreements

Votes For ■ Against ■



NOTE: Number of House Seats decreased to 8 in 2003.

SOURCE: Govtrack.us, <https://www.govtrack.us/> (accessed August 8, 2017).

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ment in the U.S.”<sup>13</sup> Congress has allowed for temporary tariff cuts in the past, through MTBs and other measures. To effect lasting benefits for American businesses, Congress should allow permanent cuts.

### Foreign Direct Investment Creates Jobs

Foreign investment is a crucial piece of free trade. Millions of Americans each year are employed by foreign companies that decide to invest in America. In 2014, 90,000 Wisconsinites owed their jobs to foreign direct investment, representing 3.7 percent of all private-sector employment in the state and 9.5 percent of manufacturing employment.<sup>14</sup>

In 2017, German candymaker Haribo announced plans to build its first U.S. plant in Pleasant Prairie, Wisconsin. Haribo will invest \$242 million in the project and the facility will eventually support 400 jobs, a huge boon for this small Midwestern village.<sup>15</sup>

Alpla Inc., Europe’s largest plastic-packaging

producer, will establish a new manufacturing plant in West Bend, Wisconsin. With 14 plants already established in the U.S., Alpla supports approximately 1,200 jobs in the U.S., a number set to increase with this newest project. According to Tom Jablonsky, vice president of manufacturing for Alpla in North America, the company plans “to grow employees internally and add locally as much as possible.”<sup>16</sup>

### All Wisconsin Businesses Deserve Competitive Tax Rates

Wisconsin currently has a variety of tax credit programs that lower corporate tax rates for manufacturing and agriculture businesses to nearly zero, while the overall corporate tax rate is 7.9 percent. While decreasing corporate tax rates does help businesses grow, doing so through temporary or selective programs is essentially another form of government favoritism.<sup>17</sup>

14. U.S. Department of Labor, Bureau of Labor Statistics, “State and Metro Area Employment, Hours & Earnings,” <https://www.bls.gov/sae/> (accessed August 3, 2017); U.S. Department of Commerce, Bureau of Economic Analysis, “Foreign Direct Investment in the U.S.: All U.S. Affiliates, by State and Country, 2014,” <http://www.bea.gov/international/di1fdiop.htm> (accessed August 3, 2017); and U.S. Department of Commerce, International Trade Administration, “Wisconsin Exports, Jobs, and Foreign Investment.”

15. News release, “Haribo to Build \$242 Million Plant in Pleasant Prairie,” *BizTimes*, March 23, 2017, <https://www.biztimes.com/2017/ideas/economic-development/haribo-to-build-242-million-plant-in-pleasant-prairie/> (accessed August 3, 2017).

16. News release, “Austrian Manufacturer Establishing Plant in West Bend,” *BizTimes*, June 8, 2017, <https://www.biztimes.com/2017/ideas/economic-development/haribo-to-build-242-million-plant-in-pleasant-prairie/> (accessed August 3, 2017).

17. Wisconsin Economic Development Corporation, “Wisconsin Manufacturing and Agriculture Credit,” <http://inwisconsin.com/grow/assistance/wisconsin-manufacturing-and-agriculture-credit> (accessed August 3, 2017).

Wisconsin's corporate tax rate is high compared to other Midwest states, such as Michigan and Indiana, which have rates of 6 percent and 6.25 percent, respectively. Lowering the corporate rate to a more regionally competitive rate for all Wisconsin businesses would benefit the state's overall economy, and not just certain industries.<sup>18</sup>

### **Support for Free Trade Among Wisconsin Legislators**

Support for free trade by Wisconsin's congressional delegation has been inconsistent since the passage of NAFTA in 1993. However, in 2011, six of eight Representatives from Wisconsin voted in favor of the FTAs with Colombia, Panama, and South Korea. Both of the state's Senators supported the agreements with Panama and South Korea.<sup>19</sup>

While a handful of Wisconsin Representatives and Senators have stood their ground in supporting free trade over the years, Members will be put to the test as the Trump Administration seeks to renegotiate existing trade agreements and pursue new ones. Wisconsin's congressional delegation should encourage the Administration to make eliminating additional U.S. and foreign tariff and non-tariff barriers the main priorities in any impending negotiations.

### **Free Trade Is Vital for Wisconsin**

The ability to freely buy and sell goods is crucial to Wisconsin's economy. The state has robust manufacturing and agriculture sectors that not only export products around the world, but also rely on inputs from those countries. As the Trump Administration prepares to renegotiate NAFTA and seek agreements with other countries, Wisconsin's elected officials should support policies that lower barriers both at home and abroad. Such policies will allow Wisconsin businesses to compete and prosper in the global economy.

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18. Tax Foundation, "State Corporate Income Tax Rates and Brackets for 2017," February 2017, <https://taxfoundation.org/state-corporate-income-tax-rates-brackets-2017/> (accessed August 3, 2017).

19. GovTrack, "Congress: Voting Records," <https://www.govtrack.us/congress/votes> (accessed August 3, 2017).