

BACKGROUND

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Trade and Prosperity in the States: The Case of New York

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Abstract

International trade and investment support hundreds of thousands of New York jobs. More than 315,000 jobs depend on exports, and another 474,000 jobs have been created by foreign investment in New York. However, the state's economy is weakened by special-interest barriers that increase prices and make it increasingly difficult for New York businesses to compete in the global economy. New York's congressional delegation should support policies that reduce the federal government's power to interfere with how New Yorkers spend their hard-earned dollars.

The freedom of people in New York 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 over 8 percent of New York's employment, an amount that is likely to grow as global barriers to trade and investment fall.¹

International commerce supports hundreds of thousands of New York jobs, including jobs in industries that export to foreign markets, jobs that rely on imported inputs, jobs created by foreign investment in New York, 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. New York's representatives should encourage continued reductions in government barriers to trade and investment.

KEY POINTS

- More than 8 percent of private-sector jobs in New York depend on international trade and investment. The state's labor force increasingly depends on exports to Canada, England, and Switzerland, along with investment from Canada, England, and France.
- Claims that trade has reduced overall New York employment are patently false. In fact, more than 2.6 million jobs have been created in New York since NAFTA took effect, including more than 1.7 million new jobs since China joined the WTO.
- U.S. trade barriers drive up the cost of shoes and clothing for New York families. They also make it harder for New York businesses to compete in the global economy.
- New York'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 New York and the rest of the world.

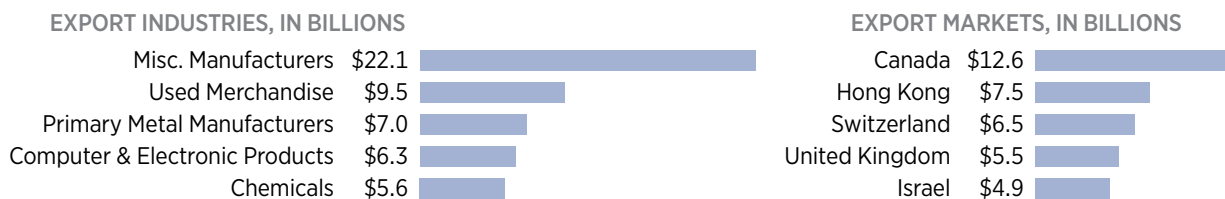
This paper, in its entirety, can be found at <http://report.heritage.org/bg3253>

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CHART 1

New York's Leading Exports in 2016



SOURCE: U.S. Department of Commerce, International Trade Administration, "New York Exports, Jobs, and Foreign Investment," <http://www.trade.gov/mas/ian/statereports/states/ny.pdf> (accessed September 21, 2017).

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How Trade Benefits New York Businesses and Workers

In recent years, reductions in U.S. and foreign trade barriers have provided major benefits for people in New York. More than 315,000 jobs depend on exports.²

Exports from New York have increased by nearly 80 percent since 2000, including a 304 percent increase in exports to China.³ Leading export markets include Canada, Switzerland, and the United Kingdom. Manufactured goods lead the state's exports.

Thousands of New York jobs rely on trade—both exports and imports. According to the Port Authority of New York & New Jersey, the port industry alone directly supports 23,695 New York jobs.⁴

In addition to exports of goods, New York businesses also exported \$72.8 billion of services like financial and travel services as of 2013.⁵

How Trade Benefits New York Farmers and Ranchers

New York's agricultural exports have nearly tripled since 2000.⁶ Exports account for 25 percent of New York's agricultural production.⁷ Leading agricultural exports include dairy products and fresh and processed fruits and vegetables.⁸

Only about 25 percent of New York's farms receive federal support, but nearly 100 percent of farms benefit either directly or indirectly from exports.⁹

In recognition of the trade's importance to U.S. farmers and ranchers, the federal government

1. U.S. Department of Commerce, Bureau of Economic Analysis, "Total Full-Time and Part-Time Employment by NAICS Industry," https://www.bea.gov/iTable/index_regional.cfm (accessed August 30, 2017); U.S. Department of Commerce, Bureau of Economic Analysis, "Interactive Data," <https://bea.gov/iTable/iTable.cfm?ReqID=2&step=1#reqid=2&step=1&isuri=1> (accessed August 30, 2017); and U.S. Department of Commerce, International Trade Administration, "New York Exports, Jobs, & Foreign Investment," <http://www.trade.gov/mas/ian/statereports/states/ny.pdf> (accessed September 26, 2017). Data as of 2015.
2. U.S. Department of Commerce, International Trade Administration, "New York Exports, Jobs, & Foreign Investment."
3. U.S. Department of Commerce, International Trade Administration, "Global Patterns of a State's Exports," <http://tse.export.gov/tse/TSEReports.aspx?DATA=SED&39.1183579&-77.211762&false> (accessed September 26, 2017).
4. New York Shipping Association, Inc., "The Economic Impact of the New York-New Jersey Port Industry," July 2014, http://nysanet.org/wp-content/uploads/NYSA_Economic_Impact_2014V2 (accessed September 26, 2017).
5. Business Roundtable, "How New York's Economy Benefits from International Trade & Investment," http://tradepartnership.com/wp-content/uploads/2015/01/NY_TRADE_2013.pdf (accessed September 26, 2017).
6. U.S. Department of Agriculture, Economic Research Service, "State Export Data," <http://www.ers.usda.gov/data-products/state-export-data.aspx> (accessed September 26, 2017).
7. U.S. Department of Agriculture, Economic Research Service, "Farm Income and Wealth Statistics," <http://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics.aspx#27415> (accessed September 26, 2017).
8. U.S. Department of Agriculture, Economic Research Service, "State Export Data."
9. U.S. Department of Agriculture, National Agricultural Statistics Service, "State Summary Highlights: 2012," https://www.agcensus.usda.gov/Publications/2012/Full_Report/Volume_1,_Chapter_2_US_State_Level/st99_2_001_001.pdf (accessed September 26, 2017).

recently created a new undersecretary for trade position in the Department of Agriculture. According to U.S. Department of Agriculture Secretary Sonny 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.¹⁰

The Impact of Trade and Trade Agreements on Jobs

Critics claim—falsely—that trade has cost New York thousands of jobs. In fact, since the North American Free Trade Agreement (NAFTA) took effect in 1994, New York has added 2.7 million new jobs. From 1988 to 1993, the years immediately prior to NAFTA's approval, the state lost 253,000 jobs. From 1994 to 1999, the first five years after NAFTA took effect, the state added 701,000 jobs. Since 2002, just after China joined the World Trade Organization (WTO), New York employment increased by 1.8 million jobs.

Of course, U.S. trade policy is not the only factor that affects New York employment. But as international trade and investment has increased, so has the number of jobs in New York.

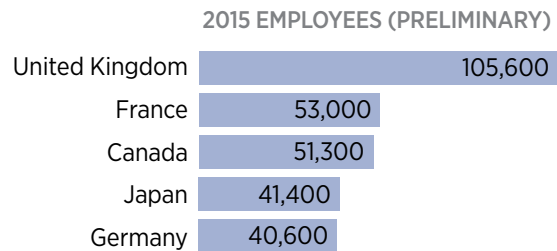
Trade is not to blame for the fact that New York, like most states, has fewer manufacturing jobs than it did in the past. Reduced manufacturing employment is primarily a result of the increasing productivity of New York workers. Manufacturing gross domestic product (GDP) per worker in New York was more than twice as high in 2015 as it was in 1994, and New York manufacturing output was at an all-time high.¹¹

Feeble Support for Trade from State Elected Officials

In 1993, New York's congressional delegation was divided on NAFTA. Just 10 of the state's 31 Representatives voted to approve NAFTA, and both Senators opposed the deal.

CHART 2

New York'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 September 21, 2017).

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In 1994, 20 of the state's Representatives voted for the Uruguay Round trade agreement that created the WTO, as did both New York Senators.

In 2011, both New York Senators voted to approve the U.S.–Korea free trade agreement, along with 16 of the state's 29 Representatives. Both Senators opposed the U.S.–Colombia free trade agreement, and they split on the U.S.–Panama free trade agreement. Among the state's Representatives, 16 of 29 supported the agreements with Korea and Panama, and just 12 supported the free trade agreement with Colombia.¹²

How Trade Facilitates International Investment to Create New York Jobs

International flows of goods and services tell only half the story of trade's benefits for New York. New York workers benefit significantly from international investment. When New Yorkers 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 New York.

10. Sonny Perdue, "Secretary Perdue Announces Creation of Undersecretary for Trade and USDA Reorganization," U.S. Department of Agriculture, May 11, 2017, <https://www.usda.gov/our-agency/reforming-usda> (accessed September 26, 2017).
11. Author's calculations from U.S. Department of Commerce, Bureau of Economic Analysis data, <https://bea.gov/> (accessed September 26, 2017).
12. Voting data from <https://www.govtrack.us/> (accessed September 26, 2017).

Nearly 540,000 New York workers are employed by foreign-owned companies like Nestle, Sanofi, and Shell. These companies provide more than 5 percent of the state’s private-sector jobs.¹³

How Anti-Trade Policies Harm New York’s Economy

Clothing Taxes. New Yorkers 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.¹⁴

These import taxes cost New Yorkers more than \$850 million in 2016.¹⁵ They are especially harmful to low-income consumers in New York and across the country because lower-income households typically spend a larger share of their paycheck on things like clothing and shoes than wealthy households do. According to one recent study, “tariffs function as a regressive tax that weighs most heavily on women and single parents.”¹⁶

Trade Restrictions and Overseas Relocations. Just as foreign investment creates gainful employment in New York, 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 over \$47 billion in higher prices.¹⁷ The program has been especially harmful for sugar-using companies in New York and elsewhere.

In 2007, *USA Today* reported that New York-based Topps, like other companies, was struggling to deal with federal sugar barriers that increased the cost of



producing candy in the United States. According to the report, “Topps ended up moving some production to other countries, including Mexico, with lower tariffs.”¹⁸

Buy America Laws. Many U.S. government policies have unintended harmful consequences. Federal

13. U.S. Department of Commerce, International Trade Administration, “New York Exports, Jobs, & Foreign Investment,” and U.S. Department of Commerce, Bureau of Economic Analysis, “Interactive Data,” <https://bea.gov/iTable/iTable.cfm?ReqID=2&step=1#reqid=2&step=1&isuri=1> (accessed September 26, 2017).

14. U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” <https://dataweb.usitc.gov/> (accessed September 26, 2017).

15. Author’s calculations based on U.S. Census data.

16. Jason Furman, Katheryn Russ, and Jay Shambaugh, “US Tariffs Are an Arbitrary and Regressive Tax,” VoxEU, January 12, 2017, <http://voxeu.org/article/us-tariffs-are-arbitrary-and-regressive-tax> (accessed September 26, 2017).

17. Erin Bardin and Bryan Riley, “Sugar Subsidies Are a Lose-Lose for American Workers and Consumers,” The Daily Signal, July 3, 2017, <http://dailysignal.com/2017/07/03/sugar-subsidies-lose-lose-american-workers-consumers/>.

18. David Lieberman, “Eisner Has His New Mickey: It’s Bazooka Joe,” *USA Today*, November 5, 2007, https://usatoday30.usatoday.com/money/media/2007-11-04-topps-eisner_N.htm (accessed September 26, 2017).

and state “Buy America” laws, for instance, require agencies to buy U.S.-made inputs instead of the best-made products at the best prices.

Earlier this year, New York Governor Andrew Cuomo (D) and state legislators offered several proposals to make New York’s Buy America laws more restrictive. In response, a coalition of business groups wrote:

This policy approach directly undermines thousands of small businesses and large employers that rely on cross-border supply chains to compete in today’s global economy and provide goods at competitive prices for customers. Small businesses would face the highest burden under the proposed Buy American approach because they are less capable of reinventing their supply chain and manufacturing networks while ensuring customer satisfaction at competitive prices.¹⁹

A better approach would be to require state and local agencies to buy the best-made goods at the best prices, ensuring that taxpayers get the best deal and defending competitive American companies against “Don’t Buy American” restrictions imposed by foreign governments.

The Jones Act and the Passenger Vessel Services Act. Protectionist restrictions on services can be just as harmful as restricting imports of goods. The Jones Act requires ships transporting goods within the U.S. to be U.S.-built, U.S.-owned, and at least 75 percent U.S.-crewed.

U.S.-built vessels are six to eight times more expensive than ships built abroad.²⁰ As former Deputy Undersecretary of the Navy Seth Cropsey explained,

If American shipyards are not required to compete with European or Asian shipyards what happens? They (foreign shipyards) compete for business around the world, and they automate, and they modernize. Why should anybody do that here when their business is guaranteed?²¹

Because the Jones Act forbids the use of more affordable foreign-built ships for domestic shipping, it serves as a major impediment to transporting goods from one U.S. port to another. Shippers instead rely on alternative forms of transportation like trucks, which in turn contributes to air pollution and traffic congestion on U.S. highways. Since 1980, the volume of goods transported between U.S. coastal ports has been cut in half.²²

According to experts at Tufts University’s Institute for Global Maritime Studies,

The trucks that carry nearly a third of our cargo clog the highways. That is one reason why Americans now lose at least 3.7 billion hours and 2.3 billion gallons of fuel each year sitting in traffic. Ships could take on a larger share of this freight—and even some of the passengers now traveling by highway and rail—and carry it at lower cost.²³

Moreover, the Institute stated in its 2008 “America’s Deep Blue Highways” report that “[o]n a ton-mile basis, ships are far more efficient users of energy than trucks.”²⁴

Like the Jones Act, the Passenger Vessel Services Act (PVSA) requires the use of U.S.-built vessels for domestic passenger transportation. Because U.S.-built ships are prohibitively expensive, it is rare to

19. Letter from Information Technology Industry Council and 29 other organizations to Governor Andrew Cuomo, Senators, and Assembly Members, February 16, 2017, <http://www.itic.org/dotAsset/d3f18380-a460-4273-91bf-d8c8b100937a.pdf> (accessed September 26, 2017).

20. John Fritelli, “Revitalizing Coastal Shipping for Domestic Commerce,” Congressional Research Service *Report for Congress* No. 44831, May 2, 2017, <https://fas.org/sgp/crs/misc/R44831.pdf> (accessed September 26, 2017).

21. Seth Cropsey, “Seablindness: How Political Neglect Is Choking American Seapower and What to Do About It,” remarks at The Heritage Foundation, Washington, DC, September 13, 2017, <http://www.heritage.org/defense/event/seablindness-how-political-neglect-choking-american-seapower-and-what-do-about-it>.

22. U.S. Army Corps of Engineers, Navigation Data Center, “Waterborne Commerce of the United States: Domestic Waterborne Commerce,” July 6, 2015, <http://www.navigationdatacenter.us/db/wcsc/xls/> (accessed September 26, 2017).

23. John Curtis Perry, Scott Borgerson, and Rockford Weitzjan, “The Deep Blue Highway,” *The New York Times*, January 2, 2007, <http://www.nytimes.com/2007/01/02/opinion/02perry.html?mcubz=0> (accessed September 26, 2017).

24. “America’s Deep Blue Highway: How Coastal Shipping Could Reduce Traffic Congestion, Lower Pollution, and Bolster National Security,” Institute for Global Maritime Studies and The Fletcher School of Law and Diplomacy, Tufts University, September 2008, p. vi, http://www.igms.org/sites/default/files/publishedworks/americas_deep_blue_highway_IGMS_report_sept_2008.pdf (accessed September 26, 2017).

see a company offering a cruise along the east coast of the United States—unless it includes a stop in an out-of-the-way foreign port along the way, in which case foreign-built ships can be used.

Americans can use foreign-built aircraft, cars, and trucks for domestic transportation. Allowing them to also use foreign-built ships would have tremendous benefits for New York.

Tariffs on Intermediate Goods. More than 60 percent of goods imported in the U.S. each year are considered intermediate goods—parts used to make final goods or capital goods like machinery.²⁵ Access to competitively priced intermediate goods, regardless of origin, is crucial for manufacturers in New York. Policymakers should remove taxes on imports used by New York manufacturers.

Trade Is Vital for New York

Today, the federal government continues to pick winners and losers through policies like the Jones Act, sugar barriers, and Buy America laws. New York policymakers and their constituents should take the lead in working to eliminate these destructive government policies.

As former U.S. President and California Governor Ronald Reagan (R) observed:

[O]ne of the key factors behind our nation’s great prosperity is the open trade policy that allows the American people to freely exchange goods and services with free people around the world. The freedom to trade is not a new issue for America. In 1776 our Founding Fathers signed the Declaration of Independence, charging the British with a number of offenses, among them, and I quote, “cutting off our trade with all parts of the world,” end quote....

Yes, back in 1776, our Founding Fathers believed that free trade was worth fighting for. And we can celebrate their victory because today trade is at the core of the alliance that secure[s] the peace and guarantee[s] our freedom; it is the source of our prosperity and the path to an even brighter future for America.²⁶

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25. Author’s calculations from United Nations Comtrade data, <https://comtrade.un.org/data/> (accessed October 2, 2017).

26. The American Presidency Project, “Ronald Reagan: Radio Address to the Nation on the Canadian Elections and Free Trade,” November 26, 1988, <http://www.presidency.ucsb.edu/ws/index.php?pid=35207> (accessed September 26, 2017).