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

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**KEY TAKEAWAYS**

COVID-19 has wreaked havoc in the 50 states as lawmakers have imposed wide-ranging restrictions on businesses and individuals, curtailing economic activity.

California has been among the strictest in terms of distancing and lockdowns. Small businesses and working Californians have borne the brunt of these policies.

California lawmakers should remove restrictions on commercial activity, especially those contributing to California's unlevel playing field between rich and poor.

COVID-19 has wreaked havoc in the 50 states as governors and lawmakers have imposed wide-ranging restrictions on businesses and individuals, which severely curtailed economic activity. States with strict stay-at-home orders have been bearing heavy costs in the areas of alcoholism, suicide, physical and mental health problems, and personal and governmental financial shortfalls.[1]

The Golden State has been among the strictest states in terms of COVID-19 distancing measures. It was the first state to impose a statewide stay-at-home order and closure of "non-essential" businesses in March 2020, and it reimposed them in December 2020 after never fully reopening in between. Even after the CDC lifted mask requirements, restrictions remained: Masks were still mandated in indoor workplaces for example—even for those who were vaccinated—unless everyone in the workplace was fully vaccinated.[2] Small businesses and working-class people have borne the brunt of the state government's economic shutdown. COVID-19 restrictions on economic activity have also had serious repercussions in Californian ports, hindering international trade responsible for hundreds of thousands of California jobs.

## Imports Create Jobs and Benefit Consumers

More than 4.06 million Californians are employed in the wholesale trade, retail trade, and transportation and warehousing industries, moving and selling goods made in the United States and around the world.[3]

All Americans benefit from the more than $366 billion of imports that arrive from overseas on California docks each year,[4] most notably passenger cars, computers and their components, and cell phone parts. For instance, in 2020, $24.5 billion worth of motor cars and transport vehicles entered the United States through California's ports from overseas—even during the COVID-19 pandemic.[5]

## Exports Also Boost California's Economy

According to the California Chamber of Commerce, goods exports support more than 1 million high-paying California jobs.[6] Exports of goods from California were up 6.6 percent from 2016 to 2019, from $163.2 billion to $174.0 billion,[7] but exports from California fell 10.3 percent in 2020 from 2019 levels as the pandemic ravished the world. California's service industries, including royalties and licensing fees and the travel and professional service sectors, accounted for another $153 billion in exports in 2018.[8]

Many sectors of California's economy benefit from exports. The state exported $149.56 billion of manufactured goods in 2019,[9] and 96 percent of all exporters in California are small businesses.[10] In 2019, California exported $23.46 billion in agricultural products, equivalent to 47 percent of the state's total agricultural output.[11]

## International Trade and the California Ports

There are 11 major ports along California's 840 miles of coastline between Mexico and the Oregon border. The Port of Los Angeles is the busiest port in the United States. When combined with the adjacent Port of Long Beach, the two make up the San Pedro Bay Port Complex and are the ninth-busiest port in the world.[12] The complex handles more than a third of U.S. container imports.[13] Terminals at the Port of San Diego and at Port Hueneme move many hundreds of thousands of new automobiles per year, specialized durable goods cargo, and exports from California. Northward, in the San Francisco Bay, the Ports of Oakland, Redwood City, Richmond, Benicia, and San Francisco cater to greater Northern California. The Port of Oakland is a best-in-class two-way export and import gateway and moves agricultural products from California's productive Central Valley.

The United States imported a record $233.026 billion in goods seasonally adjusted in March 2021[14] as coronavirus restrictions in U.S. trading partner countries were loosened and demand—in part driven by the growth in e-commerce—in the United States boomed.

California was facing a surge in COVID-19 infections in the early months of 2021, and many dock workers were not able to work due to illness or regulations regarding exposures to COVID-19. As a result, tens of thousands of containers having millions of dollars' worth of goods inside them have been stuck offshore, visible from the docks that have been jammed with still more containers.

The *Wall Street Journal* put it this way:

> The ships are carrying tens of thousands of boxes holding millions of dollars' worth of washing machines, medical equipment, consumer electronics and other of the goods that make up global ocean trade, all of it idling in the waters in sight of docks that are jammed with still more containers. One was on its 12th day of waiting in the seemingly unending queue. And the vessels keep coming.[15]

Some of the companies affected by the supply-chain bottleneck in the United States—such as Sony, Crocs, and Tesla—do not expect the bottleneck to be resolved until late 2021.[16]

## Restrictions on Cargo and Cruise Vessels

There are also long-term policy problems that limit opportunities for growth among California's ports, particularly the Merchant Marine Act of 1920 (Section 27 of which is known as the Jones Act) and the Passenger Vessel Services Act of 1886 (PVSA). These two pieces of legislation require that ships transporting goods or people between two points in the United States must be built in the United States, mostly U.S.-owned, and mostly crewed by U.S. citizens. These laws are designed to protect U.S. shipbuilders from competition, but they impose steep costs on Americans, including Californians, who use ships for domestic transportation.

The PVSA stifles innovation in the cruise industry. An opinion piece in the *Los Angeles Times* describes some of the inherent problems with the act:

> Without the PVSA, dozens more cruises would depart daily from U.S. cities such as New York and Seattle, and the hundreds of millions of dollars generated from those voyages would stay within the U.S. economy, providing thousands of portside jobs—for longshoremen loading cargo, bellhops, tour guides, taxi drivers and local farmers supplying fruits and vegetables for those all-you-can-eat buffets. And of course, each stop would generate revenue for U.S. cities in port fees as well as local and state taxes.
>
> Who does the PVSA protect? Not Americans. Instead, Canada and Mexico should send thanks to that Congress of 1886, "attn. Grover Cleveland." The cruise docks of San Diego sit vacant 90% of the year. Meanwhile, 80 miles south, Ensenada receives more than three times as many passengers as San Diego, and many more than New York, New Orleans and Boston. Vancouver hosts three times as many sailings as Seattle. Since cruising generates an estimated $3.2 billion for Canada's ports, it's no surprise that the Canadian government lobbies to preserve the PVSA.[17]

The Jones Act's cargo-shipping restrictions meanwhile increase the price of goods moving around the state of California and throughout the United States. A recent article in *The Dispatch* explains:

> First, Jones Act restrictions have inflated U.S. shipping costs because the transport of cargo between U.S. ports and on inland waterways is off-limits to foreign competition. Estimates of the direct economic damage vary widely, ranging from about $650 million to almost $10 billion per year, because the act has so distorted the U.S. market that it's difficult to construct a "free market" counterfactual. One of the most recent and comprehensive analyses, by the OECD [Organization for Economic Co-operation and Development], found that repeal of the Jones Act would increase U.S. domestic output by $40 billion to $135 billion, thanks primarily to increased industrial activity in other sectors: reduced freight rates would stimulate demand for intra- national trade (via U.S. waterways), thus generating economic growth.[18]

The Jones Act limits opportunities to transship cargo through California's numerous ports. It makes it illegal for foreign-built vessels to drop off goods in Los Angeles and then pick up goods to be delivered to Oakland or any other U.S. port. The Jones Act has recently been hindering California's efforts to modernize its ports as well, because it stipulates that only U.S. companies can dredge U.S. ports.

## Lukewarm Support for Trade from California Politicians

Sadly, the concrete and practical benefits of international commerce have not always been reflected in the voting record of the state's congressional delegation, which voted 29–24 not to support the free trade agreement with Colombia.[19] The vote to pass the U.S.–Korea free trade agreement in 2011 was only 27–26 in favor.[20] The California delegation did support the United States–Panama Trade Promotion Agreement Implementation Act in 2011, voting 31–22 in favor.[21] More recently, congressional representatives representing California voted 44–7 in favor of the United States–Mexico–Canada Agreement.[22]

Some members of the California congressional delegation appear to believe that international trade has been responsible for job losses in California. It is true, of course, that international trade, just as domestic commerce, influences market conditions, shifting demand among various producers, creating job opportunities and growth in some industries while reducing employment in others. On net, however, it is clear that there has been no net loss of jobs in California due to trade with companies in China, Mexico, or any other country. From 2001 to September 2020, total California private-sector employment increased by 1,219,000 jobs.[23]

Other critics of free trade argue that U.S. workers cannot compete with low-wage workers in other countries, but the facts show otherwise. California is a compelling destination for job-creating foreign investment. A recent report from World Trade Center, Los Angeles, reports:

> In 2019, 18,718 foreign-owned firms are estimated to operate in California, representing just over 1.2 percent of all firms in the state. These firms are estimated to employ 730,648 residents, which account for 4.9 percent of the state's employment, who earned an estimated $65.6 billion in wages last year.[24]

For example, three United Kingdom companies operating in California—Experian Corporation, Jupiter Holding I Corporation, and Princess Cruise Lines—employ 5,059 people, 4,948 people, and 3,128 people in the Golden State, respectively.[25] The top three countries ranked by California jobs at foreign-owned companies in 2019 were Japan (121,223 jobs), the U.K. (111,430 jobs), and France (69,458 jobs).

## Bad Policies Suppress Economic Freedom

California's very rich have done well, due in part to booming financial markets and the fact that COVID-19 shutdown policies have not noticeably affected the affluent in places such as Silicon Valley. Home to 50 percent more billionaires than second-ranked New York, California has 24 more billionaires in 2021 than it did in 2020.[26] California even had an unexpected budget surplus in 2020 when the state government was expecting a shortfall because the ultra-rich had higher incomes than expected and thus paid more in taxes to the state.[27]

At the same time, more than one-third of Californians live near the poverty level, the highest poverty rate of any state.[28] There is a notorious homelessness problem in California, and by a variety of metrics the problem is getting worse, with homeless encampments sprouting in communities around the state.

With COVID-19 lockdowns and restrictions on trade hammering the economy, there are two other anti-small-business and anti-working-class policies that make it harder for someone struggling with poverty to get a leg-up:

1. California's Assembly Bill 5 forbids companies from using freelancers except in narrowly defined and arbitrarily allowed instances;[29] and

2. California's extreme occupational licensure laws restrict entry into middle-class occupations such as locksmiths, travel agents, make-up artists, and tree trimmers.[30]

Both measures infringe on Californians' economic freedom, and they dim prospects for increased middle-class prosperity.

It is no surprise that California ranks 50th—last place—in *U.S. News and World Report*'s 2021 Opportunity Rankings, scoring especially poorly in the affordability and equality sub-rankings.[31] California's answer to its state's lack of opportunity is to try to increase upward mobility in the state government rather than the private sector. The Upward Mobility Act of 2021, introduced to California's legislature in late 2020, seeks to remove barriers to upward mobility, but it applies only to civil service jobs, and it would restrict mobility with new red tape rather than make upward mobility easier.[32]

## Government Should Facilitate, Not Restrict, Economic Activity

California's strict economic shutdown of restaurants and other small businesses has hurt prosperity in the state. Demands by public school teacher unions to keep schools shuttered have made it difficult for hard-working Californians who are juggling homeschooling their kids and earning paychecks.

Elected officials in California should support removing restrictions on commercial activity, whether it be the excessive COVID-19-related restrictions that have not produced better health outcomes or California laws such as Assembly Bill 5 and restrictive occupational licensing requirements. These restrictions contribute to California's unlevel playing field between rich and poor by taking away swaths of working people's job opportunities and freedom to make economic choices for themselves and their families.

The same goes for restrictions on the free trade of goods and services in the form of tariffs, quotas, or other protectionist measures.

For its part, Congress should repeal the outmoded, nonsensical, and costly PVSA and the Jones Act.

All of these measures together would increase the economic freedom of all Californians and ensure continued job security for the more than 4 million Californians who are employed moving and selling goods made in the United States and around the world and the 730,500 Californians who work for the 18,718 foreign-owned firms operating in the state.

Freer trade can help usher in a more prosperous California and help to heal the economic damage inflicted by the government responses to COVID-19 and by the disease itself.

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