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BACKGROUNDER

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Trade and Prosperity in the States: The Case of California

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Abstract

International trade and investment support hundreds of thousands of California jobs. More than 700,000 jobs depend on exports, and another 778,400 jobs have been created by foreign investment in California. The state's economy is weakened by special-interest trade barriers that increase prices and make it harder for California businesses to compete in the global economy. California's congressional delegation should support policies that reduce the federal government's power to interfere with how Californians spend their hard-earned dollars.

The freedom of people in California 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 more than 7 percent of California'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 California jobs, including jobs in industries that export goods to foreign markets, jobs that rely on imported inputs, jobs created by foreign investment in California, 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. California's representatives should encourage continued reductions in government barriers to trade and investment.

Key Points

- More than 7 percent of private-sector jobs in California depend on international trade and investment. The state's labor force increasingly depends on exports to Canada, China, Germany, and Mexico, along with investment from Germany, Japan, and the United Kingdom.
- There is no truth to claims that trade has reduced overall California employment. In fact, 6.1 million jobs have been created in California since NAFTA took effect, including 3.3 million new jobs since China joined the WTO.
- U.S. trade barriers drive up the cost of shoes and clothing for California families. They also make it harder for California carmakers, candy manufacturers, and other businesses to compete in the global economy.
- California'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 California and the rest of the world.

This paper, in its entirety, can be found at **http://report.heritage.org/bg3250**

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How Trade Benefits California Businesses and Workers

In recent years, reductions in U.S. and foreign trade barriers have provided major benefits for people in California. More than 700,000 jobs depend on exports.[2]

Exports from California have increased by 37 percent since 2000, including a 304 percent increase in exports to China. Mexico, Canada, Japan, and Hong Kong round out the state's top five export markets. Computer and electronic products lead the state's exports, followed by transportation equipment, miscellaneous manufactured goods, machinery, chemicals, and agricultural goods.[3]

Thousands of California jobs rely on trade—both exports and imports. For example, 40 percent of containerized cargo imports and 30 percent of U.S. exports are transported via California's ports. According to the California Association of Port Authorities, that state's ports support nearly 3 million jobs nationwide.[4]

In addition to exports of goods, California business exported more than $118 billion worth of services, such as business and travel services, as of 2014.[5]

How Trade Benefits California Farmers and Ranchers

California's agricultural exports have doubled since 2000.[6] Exports account for nearly three-fourths of California's net farm income.[7] Leading agricultural exports include tree nuts and fresh and processed fruits and vegetables.[8]

California farmers and ranchers receive 80 percent more income from exports than they do from federal support payments.[9] Only about one in 10 of California's farms receive federal support, but nearly 100 percent of farms benefit either directly or indirectly from exports.[10]

According to a *Los Angeles Times* report on U.S. trade policy, "[N]o state has more at stake than California. It leads the country in agricultural revenue, and its farmers and ranchers are twice as dependent on foreign trade as the country as a whole."[11]

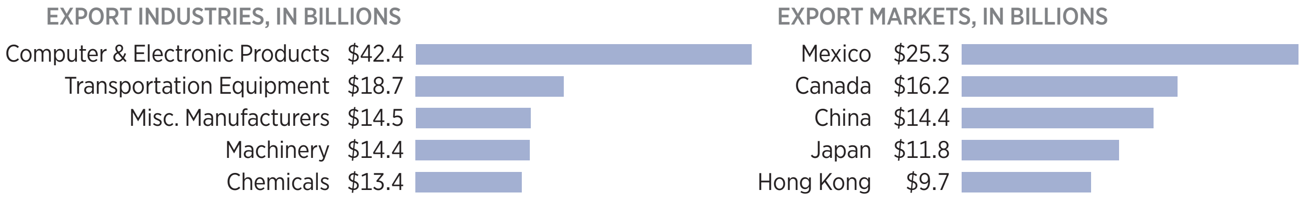
In 2014, California Department of Food and Agriculture Karen Ross commented:

> It speaks volumes that during our meetings in Mexico, the notion of "ganar-ganar," or a "win-win" relationship was mentioned more than once. Our discussions have focused not only on building stronger trade relationships between our two markets, but also in capitalizing on the shared resources of our people, climate and economy. A strong and growing Mexican market is a win for California and a win for Mexico.... In celebrating the successes of the 20th Anniversary of NAFTA [North American

1. 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); 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 International Trade Administration, "California Exports, Jobs, & Foreign Investment," http://www.trade.gov/mas/ian/statereports/states/ca.pdf (accessed August 30, 2017). Data as of 2015.
2. International Trade Administration, "California 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 August 29, 2017).
4. California Ports, "Economic Benefits," http://californiaports.org/economic-benefits/ (accessed September 14, 2017).
5. Coalition of Service Industries, "U.S. Services Exports: California," https://servicescoalition.org/images/2015_Services_Exports_Project/California.pdf (accessed August 29, 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 August 29, 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 August 29, 2017).
8. U.S. Department of Agriculture, Economic Research Service, "State Export Data."
9. U.S. Department of Agriculture, National Agricultural Statistics Service, "Federal Government Payments and Commodity Credit Corporation Loans," https://www.agcensus.usda.gov/Publications/2012/Full_Report/Volume_1,_Chapter_2_US_State_Level/st99_2_005_005.pdf (accessed August 29, 2017).
10. 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 August 29, 2017).
11. Geoffrey Mohan, "Did Someone Say Food Fight? U.S. Farmers—and Especially Those in California—Fret over a Possible Trade War," *Los Angeles Times*, February 6, 2017, http://www.latimes.com/business/la-fi-agriculture-trade-20170206-story.html (accessed September 14, 2017).

CHART 1

California's Leading Exports in 2016



SOURCE: U.S. Department of Commerce International Trade Administration, "California Exports, Jobs, and Foreign Investment," http://www.trade.gov/mas/ian/statereports/states/ca.pdf (accessed September 11, 2017).

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> Free Trade Agreement], we should also celebrate the ongoing trade benefits of this relationship.[12]

On August 7, 2017, several members of California's congressional delegation wrote: "While there has been debate over NAFTA's impact on the U.S. economy and jobs, one thing is clear—this trade agreement has opened markets to American and Californian farmers, ranchers, dairies, and agriculture processors, allowing them to sharply and successfully increase exports to Canada and Mexico."[13]

U.S. Department of Agriculture Secretary Sonny Perdue recently announced the creation of an undersecretary 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.[14]

The Impact of Trade on Jobs

Critics claim—falsely—that trade has cost California thousands of jobs. Since NAFTA took effect in 1994, California has added 6.1 million new jobs. Since 2002, just after China joined the World Trade Organization (WTO), California employment has increased by 3.3 million jobs.

Although California, like most states, has fewer manufacturing jobs than it did in the past, trade is not to blame. Reduced manufacturing employment is primarily a result of the increasing productivity of California workers. Manufacturing gross domestic product per worker in California was more than three times higher in 2015 than it was in 1994.[15] As a result of productivity gains and growing U.S. and foreign demand for California-made products, the state's manufacturing output has increased by 39 percent since 2000 to record-high levels.

California Legislators Divided on Trade

In 1993, California's congressional delegation was divided on NAFTA. Thirty-one of the state's 52 Representatives voted to approve NAFTA, but both Senators opposed the deal.

In 1994, 34 of the state's Representatives voted for the Uruguay Round trade agreement that created the WTO, as did both California Senators.

More recently, in 2011, both California Senators voted to approve the U.S.–Korea free trade agreement, along with 27 of the state's 53 Representatives. The state's Senate delegation was divided on trade agreements with Colombia and Panama. Among the

12. California Agriculture Secretary Karen Ross, "California and Mexico – a win-win relationship," *Planting Seeds: Food and Farming News from CDFA*, July 29, 2014, http://plantingseedsblog.cdfa.ca.gov/wordpress/?p=6650 (accessed September 20, 2017).
13. Letter to Commerce Secretary Wilbur Ross, U.S. Trade Representative Robert Lighthizer, and Agriculture Secretary Sonny Perdue, August 7, 2017, https://www.majorityleader.gov/wp-content/uploads/2017/08/NAFTA-Caliornia-Ag-Letter-FINAL-8-7-17.pdf (accessed September 20, 2017).
14. 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 August 29, 2017).
15. Author's calculations from U.S. Department of Commerce, Bureau of Economic Analysis data, https://bea.gov/ (accessed August 29, 2017).

state's Representatives, just 23 supported the U.S. trade agreement with Colombia, while 31 supported the trade agreement with Panama.[16]

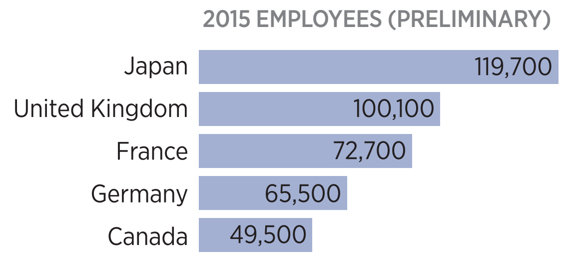
How Trade Facilitates International Investment to Create California Jobs

International flows of goods and services tell only half the story of trade's benefits for California. California workers benefit significantly from international investment. When Californians buy foreign goods, a share of the dollars they spend is used by foreigners to buy goods and services produced in the United States. Another large share returns in the form of foreign investment, which creates jobs in the U.S., including in California.

Nearly 800,000 California workers are employed by foreign-owned companies ranging from Airbus to Volkswagen. These companies provide 3.9 percent of the state's private-sector jobs.[17]

CHART 2

California'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 11, 2017).

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How Anti-Trade Policies Harm California's Economy

Clothing Taxes. Californians are gouged on a daily basis by double-digit U.S. 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.[18]

These import taxes cost Californians nearly $1.7 billion in 2016.[19] They are especially harmful to low-income consumers in California and across the country.[20]

Trade Restrictions and Overseas Relocations. 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.[21] The program has been especially harmful for sugar-using companies in California and elsewhere.

According to John Brooks Jr., Chief Operating Officer of Los Angeles-based Adams & Brooks Candy:

> [The U.S.] sugar policy is destructive. It is one that empowers foreign competition at the expense of U.S. manufacturers. We have a factory in Mexico because we are obligated to recognize the practical realities of where our costs come from, and if we want to make candy and use sugar we have an un-ignorable economic incentive to manufacture that product outside of the U.S. I'm an American. I love this country. But I cannot ignore my company's best interests, and I can't give my foreign

16. Voting data from https://www.govtrack.us/ (accessed August 29, 2017).
17. U.S. Department of Commerce, International Trade Administration, "California 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 August 29, 2017).
18. U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," https://dataweb.usitc.gov/ (accessed August 29, 2017).
19. Author's calculations based on U.S. Census data.
20. 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#.WHeSA6D-zQw.twitter (accessed August 29, 2017).
21. 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/.

> competitors an unfair advantage and not pursue investment opportunities outside of the U.S. It's time to change this program.[22]

In 2013, the president of Fairfield-based Jelly Belly Candy Company said: "In the last four years, U.S. refined sugar prices have ranged from 64 to 92 percent higher than those of the world market price because of the outdated sugar program. The facts are on our side against this outrageous government subsidy benefiting just a small group of sugar producers, but that doesn't mean much in a world of politics."[23]

In 2008, Hershey closed its Oakdale candy factory and transferred much of the production to a new plant in Monterrey, Mexico, as part of a "global supply-chain transformation" that included the opportunity to escape U.S. sugar barriers. According to a *Los Angeles Times* report at the time, "Hershey complains about government agricultural supports keeping the price of sugar at least double the level in foreign markets."[24]

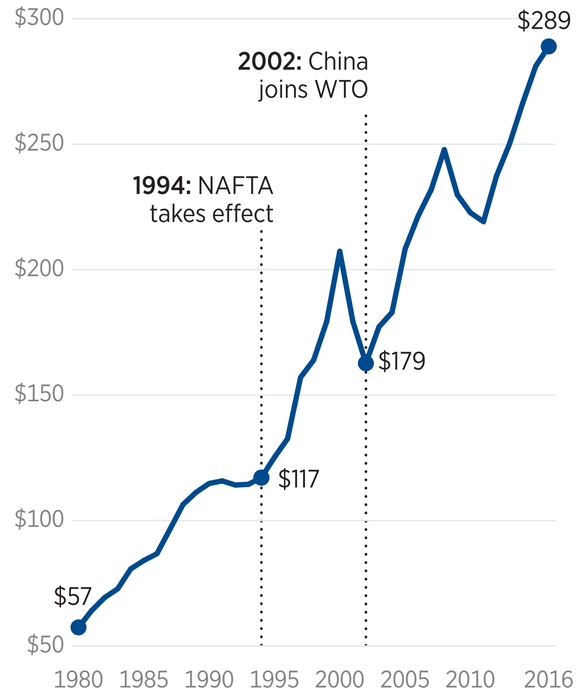
"Buy American" Laws. Many U.S. government policies have unintended harmful consequences. Buy American laws, for instance, require state and local agencies to buy U.S.-made products when using federal dollars, instead of the best-made products at the best prices.

The mandates on these agencies are particularly costly because they prevent steelmakers like Fontana-based California Steel Industries (CSI) from competing for contracts. California Steel imports steel slab, which it converts into semi-finished products used to make pipe, guardrails, roofing, and other finished steel goods. Under federal law, and in a recent executive order from President Trump, steel made by California Steel is not considered "produced in the United States." Under this executive order "California Steel" is not American steel, and therefore may be ineligible for use in government projects.[25]

CHART 3

California Manufacturing

GDP IN BILLIONS OF DOLLARS, INCLUDES METHODOLOGY CHANGE BEGINNING IN 1997



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, "Annual Gross Domestic Product (GDP) by State, GDP in Current Dollars," https://bea.gov/iTable/index_regional.cfm (accessed September 11, 2017).

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Heritage Foundation policy analyst Tori Whiting explained:

> 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

22. "John Brooks, Jr. of Adams & Brooks, Inc. Discusses Sugar Reform," May 29, 2012, video, https://www.youtube.com/watch?v=ZN0T8-wLV3A (accessed September 18, 2017).
23. Bob Simpson, "Act Now: U.S. House to Consider Reform of U.S. Sugar Program," published June 1, 2013, video, https://www.youtube.com/watch?v=_0hozyFknSA (accessed September 18, 2017).
24. Steve Chawkins, "Town Sees Nothing Sweet in Chocolate Plant Closing," *Los Angeles Times*, May 31, 2007, http://articles.latimes.com/2007/may/31/local/me-hersheys31 (accessed September 18, 2017).
25. Donald J. Trump, "Buy American and Hire American," Executive Order, April 18, 2017, https://www.whitehouse.gov/the-press-office/2017/04/18/presidential-executive-order-buy-american-and-hire-american (accessed August 29, 2017).

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.[26]

According to one report:

> When a Los Angeles utility prepared to upgrade water pipes in 2015, federal requirements prevented it from using steel sourced from a nearby mill owned by California Steel Industries Inc. The firm, despite employing hundreds of workers at a plant in Fontana, Calif., 50 miles east of the city, doesn't meet Buy America requirements. Instead, the steelmaker said, the Los Angeles Department of Water and Power had to go with a different bidder, using a steel supplier from hundreds of miles away—a factor that raised the costs 30 percent for supplying the pipes, according to California Steel.[27]

The Associated General Contractors of America called "Buy America" requirements an "antiquated" standard that could "specifically exclude certain American companies and jobs over others."[28]

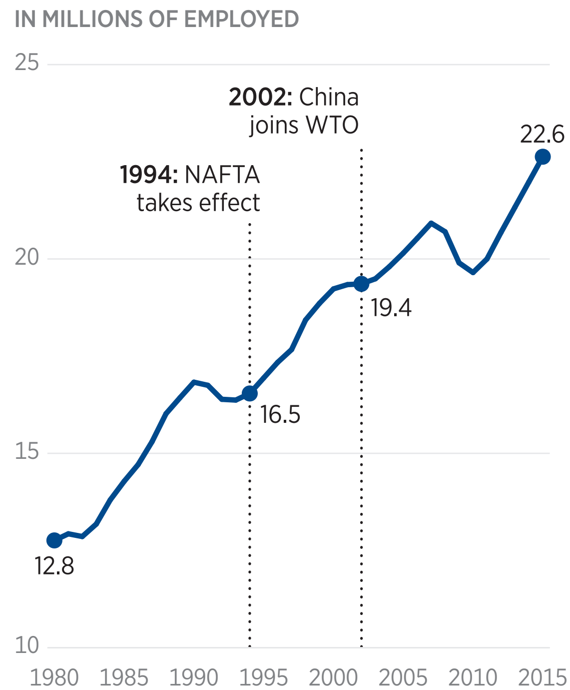
Steel Restrictions. On April 20, 2017, President Trump directed the Secretary of Commerce to review steel imports and recommend actions to "adjust" steel imports to protect national security under section 232 of U.S. trade law.[29]

In the past, steelmakers like Nucor and U.S. Steel used import restrictions to restrict competition not just from foreign steelmakers but from their U.S. competitors who rely on imported slab.[30] 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."

In 2002, California Steel argued against efforts by companies like Nucor and U.S. Steel to secure restrictions on imported steel slab: "The business model of

CHART 4

California Employment



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, "Annual State Personal Income and Employment, Total Full-Time and Part-Time Employment by Industry," https://bea.gov/iTable/index_regional.cfm (accessed September 11, 2017).

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26. Tori K. Whiting, "'Buy American' Laws: A Costly Policy Mistake That Hurts Americans," Heritage Foundation *Backgrounder* No. 3218, May 18, 2017, http://www.heritage.org/trade/report/buy-american-laws-costly-policy-mistake-hurts-americans.
27. Ted Mann and Brody Mullins, "'Buy America' Push Tests Steel Industry," *MarketWatch*, February 13, 2017, https://secure.marketwatch.com/story/buy-america-tests-steel-industry-2017-02-13 (accessed September 18, 2017).
28. Jeffrey D. Shoaf, Senior Executive Director, Government Affairs, letter to Earl Comstock, Director, Office of Policy & Strategic Planning, U.S. Department of Commerce, April 7, 2017, http://www.naylornetwork.com/ngc-constructor/pdf/Comments_on_Construction_of_Pipelines.pdf (accessed August 29, 2017).
29. Presidential Memorandum for the Secretary of Commerce, The White House, April 20, 2017, https://www.whitehouse.gov/the-press-office/2017/04/20/presidential-memorandum-secretary-commerce (accessed September 20, 2017).
30. James P. Durling and Thomas J. Prusa, "Using Safeguard Protection to Raise Domestic Rivals' Cost," *Japan and the World Economy*, Vol. 15, No. 1 (2003), pp. 47–68, http://econweb.rutgers.edu/prusa/cv/28%20-%20Raising%20rivals%20cost%20(durling-prusa).pdf (accessed August 29, 2017).

California Steel (which has been rolling purchased slab and has invested over $500 million since its inception in 1984) [is] predicated on access to imported slab. Indeed, California Steel would not exist today without slab imports. In short, the President should not impose any import restrictions on slab."[31]

California Steel continues to oppose efforts to restrict imports of imported steel slab. In 2017, California Steel's President and CEO commented:

> If the Section 232 investigation results in restricting slab imports from any commercially friendly country or in the imposition of tariffs, the result could be the loss of thousands of U.S. jobs. We ask that your investigation take these facts into full consideration and not result in findings for tariffs, quotas or other restrictions on steel slab imports, which would simply take jobs from some American companies and move them to other companies elsewhere in the U.S.[32]

According to the executive director of the Port of Los Angeles:

> The importation of slab steel is an important activity at the Port of Los Angeles. We are not only the leading container port in the nation, but the Port also handles approximately 1.5 million tons of semi-finished steel slabs per year for California Steel Industries, Inc. (CSI), the largest single user of the Port by tonnage. CSI and its steel manufacturing customers transform these 20-ton slabs into steel sheet and then into products like pipes and culverts—a long, labor intensive U.S. manufacturing process. Since steel slabs are almost never produced for sale domestically, CSI imports them through the Port supporting hundreds of ILWU jobs at the Port, in addition to over 1,000 steel jobs at CSI, and more than 7,000 jobs throughout the supply chain.[33]

Steel import restrictions would also harm Californians who work in industries that use steel, ranging from 46,000 autoworkers at companies like Tesla to more than 800,000 construction workers.[34]

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.[35] 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, 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.[36]

According to one recent report,

> For many Americans, the experience of driving on a coastal highway like Interstate 5 in California can be a nightmare of dodging massive trucks hauling cargo between US cities. In Europe, not so much. That's because for decades, European nations have turned to the sea rather than the road to transport goods across the continent. In fact, over 40 percent of Europe's domestic freight is shipped along so-called motorways of the sea. In the US, a measly

31. Greg Rushford, "In Their Own Words: Why U.S. Steel Makers Like Imports," *The Rushford Report*, February 2002, http://www.rushfordreport.com/2002/2_2002_Publius.htm (accessed September 18, 2018).
32. Marcelo Botelho Rodrigues, President & CEO, California Steel Industries, Inc., "Comments on Section 232 National Security Investigation of Imports of Steel: Opposing Tariffs or Quotas on Slab Imports," May 31, 2017, https://www.bis.doc.gov/index.php/232-steel-public-comments/1755-california-steel-industries-public-comment/file (accessed September 18, 2017).
33. Eugene D. Seroka, Executive Director, The Port of Los Angeles, "Comments on Section 232 National Security Investigation of Imports of Steel," May 31, 2017, https://www.bis.doc.gov/index.php/232-steel-public-comments/1853-port-of-los-angeles-public-comment (accessed September 18, 2017).
34. Jerry Hirsch, "The Future of the Automobile Is Being Reshaped in California," *Los Angeles Times*, November 18, 2015, http://www.latimes.com/business/autos/laautoshow/la-fi-hy-california-auto-industry-20151118-story.html (accessed September 18, 2017), and Bureau of Labor Statistics, "Economy at a Glance: California," https://www.bls.gov/eag/eag.ca.htm (accessed September 18, 2017).
35. John Fritelli, "Revitalizing Coastal Shipping for Domestic Commerce," Congressional Research Service, May 2, 2017, https://fas.org/sgp/crs/misc/R44831.pdf (accessed September 18, 2017).
36. 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 18, 2017).

2 percent of domestic freight distributed among the lower forty-eight states travels by water, even though half the population lives near the coast.[37]

A 2006 study prepared for METRANS Transportation Center, a joint partnership of the University of Southern California (USC) and California State University Long Beach (CSULB) reported:

> International trade between Asia and the U.S. West Coast ports, transiting predominately through the ports of Los Angeles and Long Beach, or the San Pedro Bay ports in Southern California, is forecast to more than double in volume in the next fifteen years. These greater volumes of commercial traffic are adding to congestion and environmental pressures on landside transportation systems, particularly those associated with the major urban cluster regions on the West Coast, the greater Los Angeles metropolitan area serving as a case in point.[38]

Experts at Tufts University's Institute for Global Maritime Studies concluded: "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."[39] According to the Institute's 2008 "America's Deep Blue Highways" report, "On a ton-mile basis, ships are far more efficient users of energy than trucks."[40]

Like the Jones Act, a similar law, 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 see a company offering a cruise along the west coast of the United States or from California to Hawaii—unless it includes a stop in Mexico or Canada, in which case affordable foreign-built ships can be used.

Victoria and Todd Buchholz recently wrote that because of the PVSA, "The cruise docks of San Diego sit vacant 90 percent of the year. Meanwhile, 80 miles south, Ensenada receives more than three times as many passengers as San Diego."[41]

In 1998, California's Deputy Secretary for Tourism testified before Congress in support of reforming the PVSA:

> Ironically, most of the passengers aboard cruise ships today are Americans. Yet they are prevented from sailing to their own country by their own government. Instead, our Government has forced Americans to visit other countries if they want to take a cruise vacation. I ask, "What's wrong with this picture," and I answer, "It's the Passenger Services Act." Imagine, if America's ports were open to cruises, cruise ships would soon call on a regular basis at the Great Lakes, New England, along the Mid-Atlantic Seaboard, from Charleston south around the entire State of Florida and through the Gulf Coast. New Orleans and Texas would be opened up, as would the entire west coast, Alaska and to and from the mainland to the Hawaiian Islands. Additional tours from coastal ports would lead inland, spreading economic and job benefits throughout our country.[42]

37. Erik Olsen, "An Arcane American Law Protected by Powerful Interests Is Causing Insane Traffic Jams," Quartz, August 7, 2017, https://qz.com/1032288/how-a-100-year-old-american-law-helps-make-your-commute-miserable/ (accessed September 18, 2017).
38. Hanh Dam Le-Griffin and James E. Moore, II, "Landside Surface Transportation Impact of Short Sea Shipping in Southern California," METRANS Transportation Center, February 2006, https://www.metrans.org/sites/default/files/research-project/04-04_Final-Landside%20Surface%20Transportation.pdf (accessed September 18, 2017).
39. 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 18, 2017).
40. Institute for Global Maritime Studies in cooperation with The Fletcher School of Law and Diplomacy, Tufts University, "America's Deep Blue Highway: How Coastal Shipping Could Reduce Traffic Congestion, Lower Pollution, and Bolster National Security," September 2008, p. vi, http://www.igms.org/sites/default/files/publishedworks/americas_deep_blue_highway_IGMS_report_sept_2008.pdf (accessed September 18, 2017).
41. Victoria J. Buchholz and Todd G. Buchholz, "How Grover Cleveland Ruined American Cruises," *Los Angeles Times*, August 3, 2017, http://www.latimes.com/opinion/op-ed/la-oe-buchholz-pvsa-cruise-20170803-story.html (accessed September 18, 2017).
42. John Poimiroo, Deputy Secretary for Tourism, California Trade and Commerce Agency, testimony before the Subcommittee on Coast Guard and Maritime Transportation, Committee on Transportation and Infrastructure, U.S. House of Representatives, "Effects of the Passenger Services Act on the Domestic Cruise Industry," April 29, 1998, http://commdocs.house.gov/committees/Trans/hpw105-65.000/hpw105-65_1.HTM (accessed September 18, 2017).

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

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.[43] Access to competitively priced intermediate goods, regardless of origin, is crucial for manufacturers in California. Policymakers should remove taxes on imports used by California businesses.

Trade Is Vital for California

Today, the federal government continues to pick winners and losers through policies like the Jones Act, sugar barriers, and "Buy American" laws. California policymakers and their constituents should take the lead in working to eliminate these destructive federal 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.[44]

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43. Whiting, "'Buy American' Laws: A Costly Policy Mistake that Hurts Americans."
44. 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 18, 2017).