

WebMemo



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China Job Loss Claims Miss the Big Picture

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Recent claims of a massive number of U.S. jobs being lost to China are woefully misleading. They miss the big—and positive—picture of international trade and financial flows.

Cringe-Worthy Debate. The current debates taking place in Washington over the impact of trade on jobs should make every economist cringe. The current analytical structure for judging the impact of trade on jobs is incomplete and inaccurate and has created an environment in which misinformation and misrepresentation can thrive.

In the worst case, analysts focus solely on computing the number of manufacturing jobs lost due to imports. They do not count real jobs that have been lost but instead calculate a number based on the value of imports. Some studies count manufacturing exports as well. This type of analysis at least acknowledges that some U.S. manufacturing jobs exist only because of international trade. Typically, the manufacturing trade balance—a net of imports minus exports—is computed and some resulting job impact is asserted using labor factor productivity tables. This is the type of analysis used recently to trumpet huge job losses because of trade with China.

Better studies add in the impact of trade in services as well and typically report a much smaller number of jobs lost. None of these analyses, however, paint an accurate and complete picture of the impact of trade on Americans.

A Fuller Accounting of Job Gains. Generally ignored in the debate over the impact of trade are the non-tradable U.S. jobs (jobs that cannot be performed in foreign countries) that are directly related

to the process of importing goods into the U.S. Jobs in cargo handling, transport, warehousing, and wholesale and retail sales, for example, fall into this category. The largest U.S. private sector employer, Wal-Mart, is primarily an importer. Members of the Longshore and Teamsters unions depend in large part on income related to imports. Any analysis of the job impact on trade that fails to include such “non-tradable” jobs provides a distorted picture. A search of the relevant literature reveals few such studies, a serious gap in U.S. economic knowledge.

In addition, failure to account for the jobs impact of the capital account (financial flows) as well as the current account (trade in goods and services) undercounts the gains from trade. Economists do talk about the positive jobs impact of foreign direct investment in the U.S. That is certainly a vital factor in increasing U.S. employment and productivity. Most studies that include investment flows report positive overall economic and jobs impacts. Still, this leaves out part of the story: Rarely counted are the job effects of the domestic financial services (banking, insurance, and investment services) that handle the recycled financial flows.

Finally, no account is taken of the jobs impact of trade on U.S. government employment. Some foreign governments (China prominently among them)

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recycle a significant part of the money they earn from exports by buying U.S. government securities. These securities finance a major part of the activities of the U.S. government and thus are responsible for funding a share of U.S. government jobs.

The Big Picture. When you look at the big picture, what emerges is an overwhelmingly positive impact of trade on U.S. jobs. On the negative side are the manufacturing jobs that are moving from the U.S. to foreign countries as the U.S. comparative advantage shifts to higher value added, higher productivity, and higher wage sectors. Other manufacturing jobs are gained, but the net effect for manufacturing is probably negative. The positive side, however, is overwhelming:

- U.S. jobs attributable to the process of importing;
- Jobs gained by foreign investment in the U.S.;
- Jobs gained in the U.S. financial services sector handling the capital account flows; and
- U.S. government jobs financed by foreign purchases of U.S. government bonds (a positive at least for those who favor big government).

Not even considered in any of this are the beneficial effects on American consumers and manufacturers from the lower prices they pay for imported goods.

More Than Meets the Eye. It is easy to talk about jobs lost in manufacturing and even easier to illustrate such talk with compelling anecdotes and pictures of real Americans who have lost their jobs. The pain of such individuals is real, and Americans should try to help them adjust and move on to new jobs. The wrong solution is to shut off or restrict the process of international trade, which has huge benefits for the American economy overall, including the creation of other jobs and improvements in America's standard of living.

If Americans do not see the big picture, actions taken to help the few on whom this nation's eyes are focused can hurt those who are out of view: the longshoremen, truckers, bankers, insurance agents, marketers, retail clerks, warehouse workers, and, yes, government workers whose jobs depend on the goods, services, and financial flows associated with international trade deserve to be counted, too. Any trade analysis that ignores their interests will be, at best, only half right.

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