

BACKGROUND

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Trade Freedom: How Imports Support U.S. Jobs

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Abstract

It is a common misperception that importing goods to America comes at the cost of American jobs. In fact, imports contribute to job creation on a large scale. The increased economic activity associated with every stage of the import process helps support millions of jobs in the U.S. This Heritage Foundation analysis shows that over half a million American jobs are supported by imports of clothes and toys from China alone. These jobs are in fields such as transportation, wholesale, retail, construction, and finance. Understanding the positive role of imports with respect to jobs, in addition to their other benefits, is critical to adopting the correct trade policy and thus to bolstering the economy.

Conventional wisdom says that exports are beneficial and imports are harmful. Conventional wisdom is wrong. A key element of this misperception is the mistaken idea that imports into a country cost jobs there. In fact, imports contribute to job creation.

In a political environment where trade and job creation are being hotly debated, it is vital to have a correct understanding of how imports truly affect jobs. The reality is that the increased economic activity associated with every stage of the import process helps support American jobs. A lot of them. The following analysis shows that over half a million American jobs are supported by imports of Chinese-made clothes and toys alone. These jobs are in fields such as transportation, wholesale, retail, construction, and finance, and in myriad other activities that are involved in turning a manufactured product into a good that is ready for use by the average American.

Imports from China of other products support additional jobs, as do imports from other countries. The belief that more imports equals less employment at home is false. It follows directly that the idea that trade deficits lead to higher unemployment is also false. Concern over the size

KEY POINTS

- Imports into the U.S. support jobs in the U.S.
- Protectionist attacks on imports and trade deficits do not account for the range of activities needed to bring imports from port to home, such as port offloading, transportation, wholesale, and retail.
- The value added to imports from the time of entry into the country to the time of final purchase by consumers can be used to estimate how many jobs are being supported by imports.
- In particular, imports of clothes and toys from China alone help support over half a million American jobs—in stark contrast to claims that trade with China costs jobs.
- Congress and the Administration should adopt policies that reflect the fact that the trade deficit does not cost jobs, and that both exports and imports are job-supporting activities.

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of the U.S. trade deficit, and particularly its impact on jobs, is based on a misconception of the way trade affects economic activity.

Advocates of free trade have long established that imports provide choices that increase individual and national prosperity. These benefits do not come at the cost of employment—expanded economic activity due to trade in both directions *adds* jobs. Congress and the Administration should not be fooled by claims of jobs lost due to imports. The government can best bolster the U.S. economy, and increase employment, by moving away from protectionism and toward trade liberalization.

Trade and Employment in the Real World

According to the Census Bureau, the U.S. imported \$382 billion of goods from China in 2010, almost one-fifth of total American imports that year. Some argue that huge volumes like this mean the U.S. has lost millions of jobs to China. There are different variations of this argument, and they are all fatally flawed. They (1) rely on misleading statistics, (2) misunderstand the crucial impact of choice and competition, and (3) confuse the impacts of recent trade with a single country (usually China) with the multi-generation process of globalization and improvements in productivity.

The first flaw is with the trade data themselves. The way trade is almost always measured gives full credit to the country that sends the final shipment: The full value of a computer assembled in China counts as a Chinese export though, typically, the only part of the computer trade process that occurs in China is the manual assembly of the parts. The value added to China's economy

is tiny, as are the workers' salaries. Yet China gets credit for the entire process in the trade accounts, and its export figures are very high.

This method of measurement ignores the fact that many imports into the U.S. start their lives as American intellectual property or components of goods, which are then modified or assembled overseas. The U.S. is a world leader in the creation of intellectual property, in product design, and in financing, and many final products imported into the U.S. contain parts originally manufactured in the U.S. High-quality American jobs are created in the early stages of what subsequently become import transactions, which are then wrongly said to lower net employment. That such activities create good jobs in the U.S. is universally accepted, but still often lost in policy discussions, which focus far too often on export promotion.

Protectionists do not advocate the use of faulty statistics. But they do have a faulty understanding of economics. The availability of more choices, usually at a lower price, in the form of imports allows American consumption to be higher than it otherwise would be. Even more important, the competitive pressure from imports improves the quality of U.S. goods and services, further encouraging consumption.

If China stopped exporting television sets, there would be fewer choices and less competition. The price of TVs would rise and the quality would fall. Americans would buy fewer TVs and production of TVs would then decline, in the U.S. and everywhere else. The ultimate logic of protectionism is to make everyone a loser.

Yet some criticism of free trade goes a step further. It wraps up all the effects of technological change and an increasingly integrated world

economy and lays them at the feet of a trade deficit with one country. This was done in the 1970s and 1980s when Japan began to compete with the U.S. and Europe, leading some to see Japan as a villain. In fact, the increased competition spurred innovation and boosted productivity, and the U.S. and Europe were ultimately winners. Such economic change can cause short-term dislocations, particularly in the job market. But over the course of a few years, Japanese competition inspired a much healthier American economy, with more and better-paying jobs. Now that the Japanese economy has fallen on hard times and is no longer a convenient scapegoat, China has become the prime target of American protectionists.

THE ULTIMATE LOGIC OF PROTECTIONISM IS TO MAKE EVERYONE A LOSER.

Those who attack China often do not examine real economic events: They do not measure actual failed businesses and actual job losses. Instead, they assume the U.S.–China trade deficit means that both production and production jobs are moving from the U.S. to China. If this were true, many jobs would have moved back to the U.S. from China when the bilateral deficit fell by more than \$30 billion in 2009. Of course, no jobs actually moved. Instead, millions of jobs were lost, due not to trade flows, but simply because of economic contraction during the financial crisis.

Even absent a crisis, the U.S.–China trade deficit does not have the impact on jobs that many protectionists believe it has. If the bilateral trade deficit were eliminated, jobs would not move to the U.S., because the U.S. does not trade with China

alone. Furniture production and similar jobs would move from China, not to the U.S., but rather to other countries where furniture can be made cheaply. The idea that millions of American jobs have been lost to China relies on bad trade numbers, bad economics, and a completely fictional view of the world.

Imports and Jobs: The Real Relationship

It is easy to link exports to specific jobs. Government statistics that record the passage of products as they leave the country are easy to match with production and employment.¹ The next step is to look at the impact on American employment of imported goods as they make their way from the port of entry to their final destination in homes, offices, or factories.

Protectionists frequently assume that the only impact of imports is to displace U.S. production. They ignore the market-expanding effect of the additional choices and competition brought by imports. Some protectionists also conveniently disregard activities that add value to a country's economy and that apply equally to imports and exports—such as port loading, internal transport, wholesale trade, retail trade, advertising, and after-market service. It is no help to policymaking to imagine what might happen if all goods Americans buy from China were suddenly produced here. This ignores the trade, investment, and business

development that have contributed so much to American and world living standards. A more useful analysis embraces the world as it really works—in which imports undeniably support jobs.

The positive impact of imports on jobs can be seen clearly in the relationship over the past 30 years between the level of imports and the unemployment rate: When imports increase, the unemployment rate goes down, not up. One likely explanation for this phenomenon is that economic growth is driving both results—growth leads to more imports and simultaneously lowers unemployment. When growth collapses, as it did in 2009, imports weaken and unemployment rises. Imports do not cause unemployment; quite the opposite, they are a signal of prosperity and plentiful jobs.

Further, it is possible to show how imports support jobs, and where.² Examination of individual import categories shows that, rather than costing jobs, trade with China helps support hundreds of thousands of American jobs, at the very least. The figures are derived by calculating the value added to imports after they enter the U.S. and are unloaded, transported, and sold, then using that total to estimate the jobs being supported.³

The results are clear and powerful. In 2010, imports of apparel from China helped support 355,000 American jobs. Toy and sporting goods imports helped support

221,000 jobs. The calculations were designed such that the bias is toward the downside, which means that these figures may well be too low. In just two trade categories, Chinese imports help support 576,000 jobs, and likely more.

The analytic concept is simple. The difference between the final price of goods to American consumers and the much lower value of those goods when they first entered U.S. territory is a measure of the value added in the U.S. Subtracting profits paid to capital investors leaves a figure representing the value added by American labor during this process. (Even fixed costs, such as for equipment, are ultimately separable into profit and value added for labor, so that some of the labor contribution is indirect.) Using average compensation for an individual worker, the result can be turned into an estimate of the number of American jobs being supported by all of the activities that occur between the port and the final users. This does not address all the important effects of imports as they expand consumer choices and affect the economy in many other ways, but can give an idea of the immediate impact of imports on jobs.

The data requirements for this analysis turn out to be surprisingly tricky. While the data collected at port are for specific products, sales at the retail level are collected on the basis of the type of store, not the product. In concrete terms,

1. See, for example, John Tschetter, "Exports Support American Jobs," U.S. Department of Commerce *International Trade Research Report* No. 1, March 2010, <http://www.esa.doc.gov/sites/default/files/reports/documents/esaj.pdf> (accessed September 5, 2012).

2. One approach is via regional input-output multipliers (RIMS) offered by the Bureau of Economic Analysis. These multipliers can be used to show that imports support jobs generally, but do not tie imports of specific products from specific countries to national job creation. See Bureau of Economic Analysis, "RIMS II Online Order and Delivery System," <https://www.bea.gov/regional/rim/rimsii/> (accessed September 5, 2012).

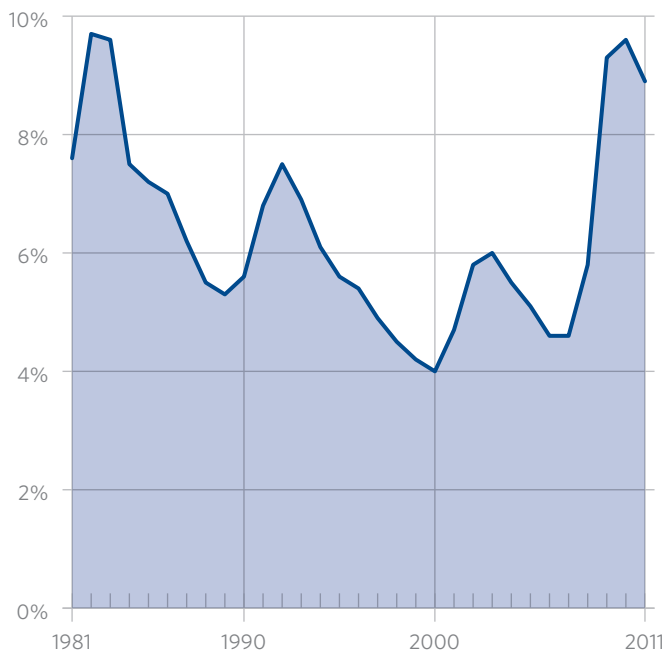
3. This is certainly not a brand-new conceptualization. See, for example, a Federal Reserve paper focused on consumption: Galina Hale and Bart Hobijn, "The U.S. Content of 'Made in China,'" Federal Reserve Bank of San Francisco *Economic Letter* No. 2011-25, August 8, 2011, <http://www.frbsf.org/publications/economics/letter/2011/el2011-25.pdf> (accessed September 5, 2012).

CHART 1

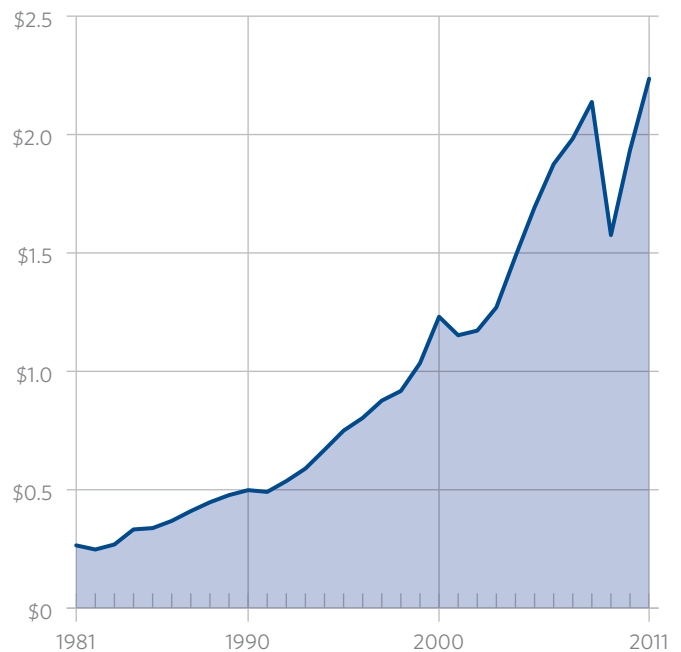
Comparing the Unemployment Rate with Total Imports

Beginning in the early 1980s, the U.S. unemployment rate had been declining while the value of total imports steadily rose, a trend interrupted only when the recession hit in 2008.

U.S. UNEMPLOYMENT RATE



U.S. IMPORTS (TRILLIONS OF DOLLARS)



Sources: Unemployment: U.S. Department of Labor, Bureau of Labor Statistics, “Labor Force Statistics from the Current Population Survey,” http://www.bls.gov/cps/prev_yrs.htm (accessed August 29, 2012). Imports from China: U.S. Census Bureau, Foreign Trade, Country and Product Trade Data, <http://www.census.gov/foreign-trade/statistics/country/> (accessed August 29, 2012).

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the North American Industry Classification System (NAICS) for trade and output can be combined fairly precisely, but there is a sizable gap between these and the NAICS categories for sales.

Other valuable data sources, such as financial statements sent to the government, are imprecise about expenses or have important gaps, for example, with regard to port off-loading and transport. Notably, some data sources do not cover all goods. Bridging the gap between arrival at port and final sale is possible, however, with careful assessment of products and outlets.

A secondary challenge involves an estimate for profits. One problem: A single-year snapshot of profits can be misleading with regard to longer-term conditions as industry fortunes shift. While a considerable flaw in principle, it is easily addressed in practice. The procedure used allows simple substitution of different profit figures that will yield different numbers of jobs supported. When the profit figures used here become outdated, the same procedure can be used with new numbers.

Here, the procedure is applied to two industries—(1) clothing/apparel and (2) toys and sporting

goods—in which imports from China are important in size and market share. The post-manufacturing and post-import supply chains for these products are thus very likely to be integrated, with domestic and foreign goods processed together. This allows measurements of total value added to be used in computing value added of goods specifically imported from China.

How Many Jobs Depend on Imports?

Apparel. At the time of research, 2010 was the most recent year for which all data were available.

Apparel (NAICS code 315) is an industry in which China-made imports are sizable in their own right and substantial in comparison to total American consumption of apparel.

In 2010, the value added in the U.S. to Chinese apparel imports was \$21.67 billion, calculated as follows:

1. The calculation begins with the final value of goods as they reach the consumer.
 - Estimated 2010 sales of U.S. retail firms in clothing (NAICS 4481)⁴ were \$158.8 billion.
2. Some of this amount is profit and thus does not represent value added by labor. Estimated sales net of profits are \$146.9 billion, derived as follows:
 - The best available estimate for profits as a percent of retail sales⁵ is 7.5 percent.
 - $\$158.8 \text{ billion} \times 0.075 = \11.9 billion
 - $\$158.8 \text{ billion} - \$11.9 \text{ billion} = \$146.9 \text{ billion}$

3. The value added by labor from distribution and sales activities in the U.S. is the difference between estimated sales net of profits and the original production or import cost of the goods. That cost was \$87.97 billion, derived as follows:

- The value of American apparel production consumed in the U.S. in 2010 was approximately \$9.29 billion. This is calculated by subtracting the value of American apparel exports to the world in 2010 from total U.S. apparel output in 2010.
 - U.S. apparel output in 2010 was \$13.79 billion.⁶
 - U.S. apparel exports in 2010 were \$4.50 billion.⁷
 - $\$13.79 \text{ billion} - \$4.50 \text{ billion} = \$9.29 \text{ billion}$
- The cost-insurance-and-freight (CIF) value of American apparel imports from the world in 2010⁸ was \$78.68 billion.
- $\$9.29 \text{ billion} + \$78.68 \text{ billion} = \87.97 billion^9

4. Value added by labor is thus \$58.93 billion—the value of estimated sales net of profits minus the original cost of the products:

- $\$146.9 \text{ billion} - \$87.97 \text{ billion} = \58.93 billion

5. The final step is to calculate the amount of this value added by labor that is attributable to Chinese imports. This amount turns out to be \$21.67 billion, calculated by multiplying the Chinese share of product sold in America by the value added.
 - The Chinese share of total product sold in the U.S. can be estimated by dividing the value of Chinese imports by the calculated total product cost:
 - The value of Chinese imports is \$32.38 billion.¹⁰
 - The calculated total product cost is \$87.97 billion.
 - $\$32.38 \text{ billion} / \$87.97 \text{ billion} = 0.368$

4. U.S. Census Bureau, "Monthly and Annual Retail Trade: Estimated Annual Sales of U.S. Retail and Food Services Firms by Kind of Business, 1992 to 2010," <http://www.census.gov/retail/> (accessed August 30, 2012).

5. BizStats, "Industry Income-Expense Statements," 2009, <http://bizstats.com/corporation-industry-financials/retail-trade-44/clothing-clothing-accessories-stores-448/show> (accessed August 30, 2012). The profit figure is midway between 2009 (latest available) Internal Revenue Service net income and net income plus depreciation: U.S. Department of the Treasury, Internal Revenue Service, *2009 Corporation Source Book of Statistics of Income*, Wholesale Trade, Merchant Wholesalers, Nondurable Goods: Apparel, Piece Goods, and Notions, 2009; and U.S. Department of the Treasury, Internal Revenue Service, *2009 Corporation Source Book of Statistics of Income*, Retail Trade: Clothing and Clothing Accessories Stores, 2009.

6. Bureau of Economic Analysis, Survey of Current Business, "Current-Dollar Gross Output," 1998-2010, http://www.bea.gov/industry/xls/GDPbyInd_GO_NAICS_1998-2010.xls (accessed August 30, 2012).

7. U.S. Census Bureau, "U.S. International Trade Statistics: Value of Exports, General Imports, and Imports by Country by -digit NAICS (World)," 2010, http://censtats.census.gov/cgi-bin/naic3_6/naicCty.pl (accessed August 30, 2012).

8. Ibid.

9. This calculation compares favorably with 2010 purchases according to Census data, which were \$89 billion. The simple method used here has the considerable advantage of extending to more products. U.S. Census Bureau, "Estimated Annual Purchases of U.S. Retail Firms by Kind of Business, 1992 to 2010."

10. U.S. Census Bureau, "U.S. International Trade Statistics: Value of Exports, General Imports, and Imports by Country by -digit NAICS (World)."

- Multiplying by value added:
 $0.368 \times \$58.93 \text{ billion} = \21.67 billion

This value added represents jobs—wages and benefits paid to Americans engaged in port offloading, transportation, wholesale and retail sales, store construction, marketing, real estate and financial services, and the rest of the work needed to move goods from ship to consumer. One way to quantify the jobs supported is to divide the value added by the average compensation for private-sector workers. The Census Bureau does not yet have this figure for 2010, but 2010 was not a year of fast growth in compensation, so 2009 figures provide a close approximation.

- For 2009, average compensation was \$61,051.¹¹
- $\$21.67 \text{ billion} / \$61,051 = 355,000 \text{ jobs}$

Imports of apparel from China thus supported approximately 355,000 jobs in the United States.

Other methods of estimation provide comparable figures. For example, the total employment in retail sales of apparel is 1.6 million.¹² Multiplying this figure by the market share estimate for Chinese apparel (0.368) provides an estimate of retail jobs supported by imports of Chinese apparel of 580,000 in 2010, considerably higher than the 355,000 jobs estimated above. A similar calculation using the latest available IRS tax data, from 2009 when imports were

unusually low, shows 245,000 jobs supported that year.¹³ The important aspect is that all such methods lead to the same general conclusion: *Hundreds of thousands of jobs are supported by apparel imports.*

Toys and Sporting Goods. The process can be duplicated, using the exact same data sources, for toys and sporting goods (NAICS 3399).

In 2010, the value added in the U.S. to Chinese toy and sporting good imports was \$14.94 billion, calculated as follows:

1. The calculation begins with the final value of goods as they reach the consumer.
 - Estimated 2010 sales of U.S. retail firms in sporting goods and toys (NAICS 45111-2) were \$54.28 billion.
2. Some of this amount is profit and thus does not represent value added by labor. Estimated sales net of profits are \$52.27 billion, derived as follows:
 - The best available estimate for profits as a percentage of retail sales in the toys and sporting goods sector is 3.7 percent.
 - $\$54.28 \text{ billion} \times 0.037 = \2.01 billion
 - $\$54.28 \text{ billion} - \$2.01 \text{ billion} = \$52.27 \text{ billion}$
3. The value added by labor from distribution and sales activities in

the U.S. is the difference between estimated sales net of profits and the original production or import cost of the goods. That cost was \$33.63 billion, derived as follows:

- The value of American toys and sporting goods production consumed in the U.S. in 2010 was approximately \$4.73 billion. This is calculated by subtracting the value of American toys and sporting goods exports to the world in 2010 from total U.S. toys and sporting goods output in 2010.
 - U.S. toys and sporting goods output in 2010 was \$10.65 billion.
 - U.S. toys and sporting goods exports in 2010 were \$5.92 billion.
 - $\$10.65 \text{ billion} - \$5.92 \text{ billion} = \$4.73 \text{ billion}$
 - The CIF value of American toys and sporting goods imports from the world in 2010 was \$28.90 billion.
 - $\$4.73 \text{ billion} + \$28.90 \text{ billion} = \33.63 billion
4. Value added by labor in toys and sporting goods distribution and sales processes is thus \$18.64 billion, the value of estimated sales net of profits minus the original cost of the products:

11. U.S. Census Bureau, "Table 643. Annual Total Compensation and Wages and Salary Accruals per Full-Time Equivalent Employee by Industry: 2000 to 2009," <http://www.census.gov/compendia/statab/2012/tables/12s0643.pdf> (accessed August 30, 2012).

12. U.S. Census Bureau, "Table 1048. Retail Trade—Establishments, Employees, and Payroll," 2000–2008, <http://www.census.gov/compendia/statab/2012/tables/12s1048.xls> (accessed August 30, 2012).

13. The IRS data have the advantage of considerable detail but are older and ultimately less precise due to a large category of "other expenses" that is difficult to use. Internal Revenue Service, *2009 Corporation Source Book of Statistics of Income*.

- \$52.27 billion - \$33.63 billion = \$18.64 billion.
5. The share of this value added by labor that is attributable to Chinese imports is \$13.48 billion, calculated by multiplying the Chinese share of product sold in America by the value added.
- The Chinese share of total product sold in the U.S. can be estimated by dividing the value of Chinese imports by the calculated total product cost:
 - The value of Chinese imports is \$24.32 billion.
 - The calculated total product cost is \$33.63 billion.
 - $\$24.32 \text{ billion} / \$33.63 \text{ billion} = 0.723$
 - Multiplying by value added:
 $0.723 \times \$18.64 \text{ billion} = \13.48 billion

As with apparel, this value added represents jobs—wages and benefits paid to Americans engaged in port offloading, transportation, wholesale and retail sales, store construction, marketing, real estate and financial services, and the rest of the work needed to move toys and sporting goods from ship to consumer. The number of these jobs is calculated by dividing the value added by the average compensation for private-sector workers. As before:

- For 2009, average compensation was \$61,051.
- $\$13.48 \text{ billion} / \$61,051 = 221,000 \text{ jobs}$

Imports of toys and sporting goods from China supported approximately 221,000 jobs in the United States.

Imports and Jobs in a New Light

The job-supporting nature of export production is intuitively obvious and captured in official reports and statistics. This is part of the reason why exports are considered to be good for the economy. Measuring the employment effects of imports is harder to do properly, but this is a start and much more progress can be made. Proper work in this area will continue to show that imports support jobs, too.

Because exports and imports both support jobs, it follows that the best measurement of how trade affects employment is the amount of combined trade flowing in and out of the country. It makes little sense to focus on whether imports or exports are larger—whether there is a trade deficit or surplus—when both are having a positive impact.

The Administration and Congress therefore should:

1. Recognize that imports support American jobs. Policymakers should resist legislation and regulations that restrict imports and adopt policies that encourage liberalization of trade in both directions.

2. Stop using the trade deficit to show the effect of trade on employment. Total trade volume is a far better indicator.

3. Improve trade data at a technical level. The Department of Commerce should measure components used in production, rather than just the final product. The Commerce Department and other agencies involved should also better align trade, production, and consumption classifications.

Understanding the positive role of imports in particular is critical to healthy trade policy and thus to bolstering the economy. Buying imports does not mean that jobs are exported to foreign nations. On the contrary, imports can create jobs from the port to the sales floor. The voluntary trade of dollars for goods is agreed upon millions of times every year because it benefits both parties to the transaction. American workers share intensely in those benefits.

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