

# ISSUE BRIEF

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## Congress Should Recognize the Dynamic Benefits of Imports

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Advocates of free trade agreements often assert that trade is beneficial because it gives American businesses better access to the world's consumers, 95 percent of whom live outside the United States. While this claim is a fact, the argument centers on the regrettable fixation over the benefits of *exports*. This mercantilist view often discounts or even completely ignores the value and significance of the dynamic contribution that *imports* have for the U.S. economy.

The emphasis on exports, an ideological relic of past centuries, has been deeply embedded in U.S. trade policy. Ongoing trade-related programs, such as the National Export Initiative and the Export-Import Bank, favor one-sided, export-driven international trade and rarely ever mention how vital imports are to Americans and the U.S. economy. Meanwhile, leaders in Congress and the executive branch constantly harp on the advantages of exports when selling new trade initiatives to the public. As Congress tries to push forward its long-delayed trade agenda, it must recognize that the value of imports is an indispensable component of U.S. trade policy.

### Imports Matter

Imports are often misunderstood as being detrimental to economic growth and employment. But in practice, they provide invaluable benefits to Ameri-

can workers, consumers, and producers. As demonstrated in numerous empirical studies, the following benefits from imports that accrue to the American economy are real and undeniable:

- **Imports contribute to job creation on a large scale.** The increased economic activity associated with every stage of the import process helps support American jobs. Historically, the highest levels of U.S. employment growth tend to have occurred during periods when U.S. imports exceeded exports. As shown by a recent Heritage Foundation study, for instance, over half a million American jobs—in fields such as transportation, wholesale, retail, construction, and finance—are supported by imports of clothes and toys from China alone.<sup>1</sup> These jobs represent positions all along the value-chain line and include the high-value service-sector jobs of the modern economy.
- **Imports provide key inputs for U.S. businesses.** Not only do imports support American jobs, they also provide vital components to American businesses, particularly manufacturers. According to the Bureau of Economic Analysis, imports of intermediate inputs have steadily increased. Currently, about half of all intermediate inputs are imported. Furthermore, between 1997 and 2006, these imported inputs enhanced manufacturing productivity significantly, accounting for 14 percent of overall labor productivity growth and 23 percent of manufacturing labor productivity growth.<sup>2</sup> A 2013 empirical analysis published by the Federal Reserve Bank of St. Louis also highlights the dynamic and value-adding role played by imports

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in the U.S. economy. The study presents strong evidence that “imports have played a critical [and] positive role in boosting manufacturing output in the United States—much more so, in fact, than exports.”<sup>3</sup> Indeed, intermediate and capital goods imports are the lifeblood of U.S. manufacturing.

- **Imports give a greater purchasing power to American consumers.** Imports from our trading partners also allow U.S. consumers to buy a wider variety of goods at lower prices. This raises real wages and helps families purchase more with their current incomes. As noted by the Council of Economic Advisors,<sup>4</sup> trade “is especially important for middle-class consumers.... [They] gain an estimated 29 percent of their purchasing power from trade...[and] the reduction in U.S. tariffs since World War II contributed an additional 7.3 percent to U.S. GDP, or approximately \$1.3 trillion in 2014.”

According to the HSBC bank, when distributed equally, that gain translates into an additional \$13,600 in income per American household compared to an environment with no international trade.<sup>5</sup> This additional income, and economic growth, is essential for building and maintaining a strong middle class that can afford modern amenities.

- **Imports enhance overall quality of life.** Reminding people of the virtue of free trade, the late Milton Friedman once pointed out that “exports are the cost of trade, imports the return from trade, not the other way around.” Friedman further explains:

What we send abroad we can't eat, we can't wear, we can't use for our houses. The goods

and services we send abroad, are goods and services not available to us. On the other hand, the goods and services we import, they provide us with TV sets we can watch, automobiles we can drive, with all sorts of nice things for us to use.<sup>6</sup>

- International trade gives Americans access year-round to healthy fruits and vegetables; affordable clothing; fresh flowers for Mother's Day; and cell phones more powerful and plentiful than supercomputers once were. When combined with the jobs that imports support, the benefits compound. Jobs, rising wages, and falling prices are a sure-fire formula for enhancing Americans' quality of life.

### **Long Overdue: Time to Recognize the Vital Benefits of Imports**

A growing number of economists and advocates of free trade have established that imports provide choices and opportunities that increase individual and national prosperity. These benefits do not come at the expense of economic dynamism. Instead, expanded economic activity due to trade in both directions creates jobs. Congress can best bolster the U.S. economy—and increase employment—by moving away from protectionism and toward freer trade that takes full advantage of the benefits of imports.

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