

Hidden Toll: Imports and Job Loss Since 2007



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“We have a huge opportunity, at this moment, to bring manufacturing back...but we have to seize it.” With these words in his State of the Union address, President Obama signaled that he is getting serious about recapturing factory jobs that have been lost to imports. Since the speech, the White House has outlined a series of policy measures intended to encourage companies to ‘insource’ jobs from overseas, including changes in the tax code and increasing domestic investment.

True, many economists, both liberal and conservative, are skeptical that much can be done to bring back manufacturing jobs. They argue that American factories have become so efficient that they no longer need to hire many workers. “It’s totally implausible to think that there’s going to be a surge in manufacturing jobs,” Lawrence F. Katz, an economist at Harvard who served in the Clinton Administration, told the New York Times.¹ Christina Romer, former head of Obama’s Council of Economic Advisors, recently wrote in the New York Times that “a persuasive case for a manufacturing policy remains to be made.”

But this skepticism about President Obama’s manufacturing initiative relies on faulty official data. In fact, government statisticians are dramatically undercounting the economic impact of imports from low-cost countries such as China, as we will explain, in this paper and the accompanying policy memo, “Trade-related Jobs Lost During the Great Recession.” The reason for this statistical problem is an important economic concept known as “import price bias.”²

After doing a preliminary adjustment for import price bias, we find that 1.3 million jobs have been lost to rising imports since the recession started in 2007, accounting for one-third of the private nonconstruction job loss. Many of these are jobs that could potentially be brought back to this country by appropriate incentives that encourage investment and job creation in the U.S. We therefore conclude that President Obama’s manufacturing initiative, combined with other “production” policies, can potentially be a significant source of domestic jobs.

We arrive at this hefty figure by adjusting the official data on trade and domestic production for low-cost imports, which are incorrectly treated in the national in-

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come accounts. Correcting for this import price bias, we find that nonpetroleum imports rose by \$131 billion from 2007 to 2011, adjusted for price changes, rather than the meager \$14 billion rise in imports that the official data shows (measured in 2011\$).

This uncounted import growth helps explain why federal stimulus measures did not generate as many jobs as expected. In fact, a hefty slice of fiscal stimulus—both tax cuts and spending increases—leaked overseas, boosting imports rather than domestic production. This leakage, in turn, explains why Obama’s manufacturing strategy is so necessary. We need to reinforce domestic production in order to reaffirm the strength of the economy.

Let’s be clear here: We are not saying that manufacturing is the only form of production, or that globalization is bad. For example, the immense flowering of the creativity in the wireless/social media/communication sectors are clearly a form of 21st century production. The App Economy—the development and use of apps designed for smartphones and social media—has created nearly 500,000 jobs since the first iPhone came out, and will continue to create more.³

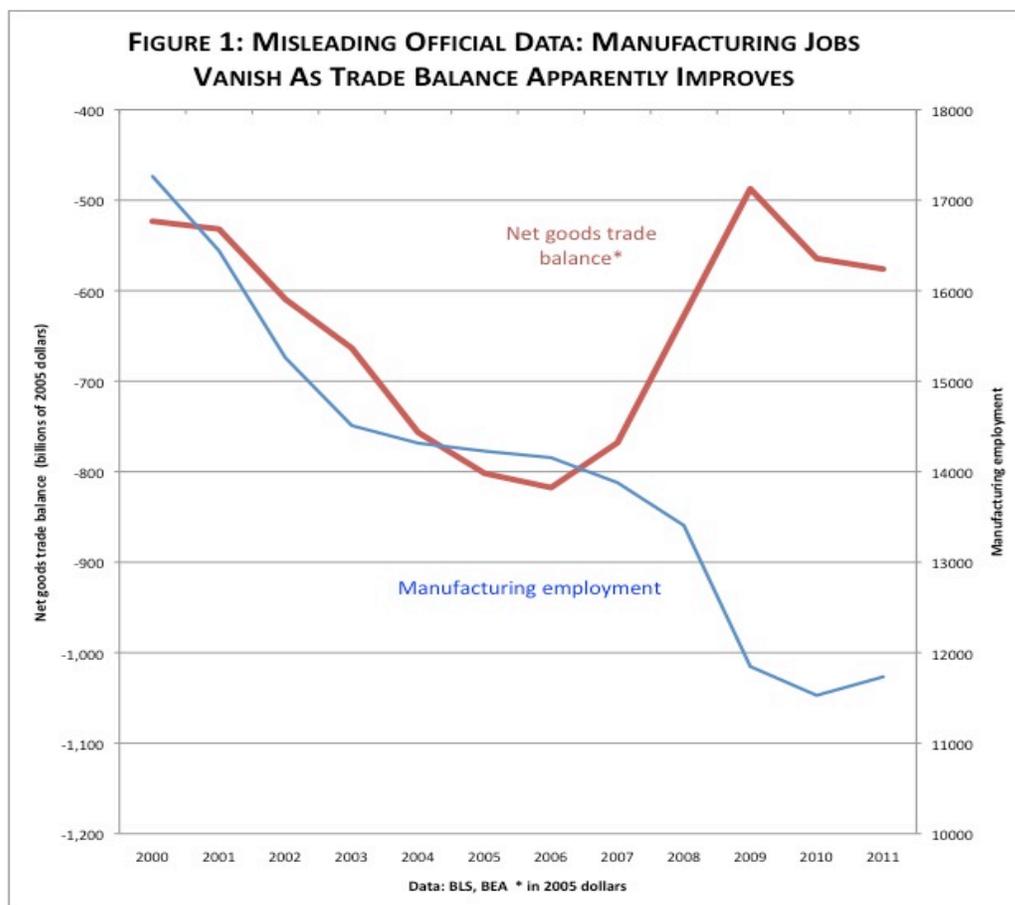
Second, we’re also not saying that trade is the only cause of job loss. Clearly one impact of information technology has been to massively transform industries such as retailing, reducing the number of workers needed.

However, the U.S. cannot afford to be in a position of perpetually consuming more than it produces. We need to make the shift from a consumption economy to a production economy in order to assure long-term prosperity.

Background

Since 2000 the number of U.S. manufacturing jobs has fallen by about 5.5 million, with almost half of that decline coming since 2007 alone. There are two potential explanations for this drop. The first is that manufacturing productivity has increased sufficiently to allow the U.S. to produce all the goods we need with many fewer workers. The second possible explanation is that domestic companies are sourcing more and more of their goods purchases from cheaper overseas suppliers, which leads to fewer workers being employed in U.S. factories.

The official data from government statistical agencies strongly supports the first explanation, that the job loss is primarily due to productivity gains in manufacturing. According to figures from the Bureau of Economic Analysis, the goods trade deficit was supposedly 25% smaller in 2011 than in 2007, adjusted for price changes (that shows up as a rise in the net goods trade balance, the wide red line in Figure 1). Similarly, the goods trade deficit in 2011 was supposedly barely larger than it was in 2000, according to the official data.



Economists who look at this contraction of the official trade deficit would naturally conclude that trade is unlikely to be a major cause of manufacturing job loss since the recession started. In fact, that is the consensus of the economics profession, liberals and conservatives.

And here is where the rubber meets the policy road. The official data in Figure 1 suggests that trade cannot be a major cause of manufacturing job loss, since the trade gap is shrinking. In turn, this would imply that the disappearing jobs must be the result of the combination of higher productivity and insufficient demand. And this statement, in turn, implies that the Obama manufacturing initiative is both unnecessary and futile; unnecessary in the sense that American factories are already competitive because of rising productivity, and futile because highly productive factories are never going to be important sources of employment again, much like farms are no longer be a major source of jobs.

Import Price Bias

However, the official data significantly undercounts the economic impact of imports from low-cost countries such as China. The reason for this undercount is a statistical problem known as the import price bias. The meaning of import price bias is discussed extensively in our accompanying policy memo. Other references

include the 2011 article by Susan Houseman and co-authors in the *Journal of Economic Perspectives* (an official publication of the American Economic Association) and Mike Mandel’s recent article, “The Myth of American Productivity” in the January-February 2012 issue of *Washington Monthly*.

But here’s a quick explanation. Factories in low-cost countries such as China prosper because they can sell goods at a much lower price than factories in the U.S. (let’s leave aside for the moment the question of whether the lower price comes from lower labor costs, an undervalued currency, government subsidies, or some other reasons). For example, the price of an import from China might be 20%, 35%, or even 50% below the price of the comparable domestically-produced item.

As a result, \$1 of imports from China or another low-cost country might replace \$1.25, \$1.50, or even \$2 worth of domestic production, along with all the associated jobs. Surprisingly, the import-domestic price differential is **not accounted** for in the official economic statistics. Indeed, the Bureau of Labor Statistics—the official keeper of the price statistics—does not even have the necessary data to compare import prices to the price of comparable domestic-made goods. As a result, the government statistical agencies are forced to implicitly assume that the price of imports is **equal** to the price of comparable domestic-made goods.

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On a macro level, omitting this price differential can have an enormous impact. In 2011, for example, goods imports from low-cost producers China, India, Thailand, Vietnam, and Mexico totaled \$700 billion, leaving aside Mexican oil. That doesn’t sound like much, compared to total domestic manufacturing shipments of \$5.4 trillion.

But let’s suppose that each \$1 of imports from low-cost countries displaces, on average, \$2 of domestic production. Then imports from those five countries alone replace \$1.4 trillion of domestic production, and all the associated jobs. That’s equal to a full 25% of domestic manufacturing shipments.

Oh, and one more thing. Because of funding shortfalls, the BLS does not do a good job tracking the price difference between imports from high-cost countries such as Germany and Japan, and low-cost countries such as China. As a result, government statisticians treat a \$1 of imports from Japan as if it has the same impact as \$1 of imports from China. That’s not reasonable.

Adjusting the Figures

According to the official data, non-oil goods imports in 2011, adjusted for price changes, were barely higher than they were in 2007. However, there was a big change in the source of those import goods. The dollar value of goods imports from low-cost countries such as China and Mexico rose by roughly 25% from 2007 to 2011. Meanwhile, over the same period, the dollar value of goods imports from high-cost countries such as the United Kingdom and Japan fell.

To estimate the true economic impact of low-cost imports since 2007, we want to be able to adjust for this shift. That requires data on the price difference between imports and domestic production. The Progressive Policy Institute has proposed that the BLS conduct a “Competitiveness Audit” that would collect such data.⁴

However, even without a Competitiveness Audit, it’s possible to make a rough adjustment for the import price bias. We analyzed the change in demand and supply from 2007 to 2010 for six key commodities—apparel, communications equipment, computers, furniture, motor vehicles, and televisions. For each commodity, we compared the change in domestic demand with the change in domestic production, and estimate how big the change in imports has to be to fill the gap. (The details of the calculation can be found in the accompanying policy memo).

Results

After adjusting for import price bias, our analysis shows that nonpetroleum imports rose by \$131 billion from 2007 to 2011, rather than the meager \$14 billion rise in imports that the official data shows (all figures in 2011\$).

This is a significant change. For one, it means that non-petroleum goods imports rose by 7.4% from 2007 to 2011, adjusted for price changes. By comparison, the official data shows only a 0.8% increase. It also implies that real GDP in 2011 was flat compared to 2007, instead of rising by 0.8% as the official numbers show.

Perhaps the most important result of our calculation is the impact on jobs. Estimating the number of U.S. jobs affected by trade comes with its share of caveats. However, for our analysis we rely on the multipliers produced by government economists. These multipliers suggest that a \$1 billion decrease in GDP (in 2010\$) would end up costing roughly 11,500 domestic jobs. These jobs are the direct and indirect jobs (“downstream” jobs) associated with producing a good or providing a service. In addition, there are also jobs that are associated with the induced spending and investment from the wages and salaries of those workers associated with the production of goods and provision of services (“upstream jobs”).

As a result, our adjustment to the import figures—which raises import growth by \$117 billion in 2011 dollars—implies that roughly 1.3 million jobs have been lost to imports since 2007. That is to say, imports miscounted as U.S. economic activity accounted for roughly one-third of the nonconstruction jobs lost over 2007-2011.

Implications for Policy

The official data seems to imply that imports have little responsibility for the decline in jobs—even manufacturing jobs—since the recession started. After all, if imports haven’t gone up, how can imports be hurting jobs? And if imports aren’t hurting jobs, perhaps Obama’s manufacturing initiative is not necessary.

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But as we have shown, the official statistics underestimate the economic impact of imports from low-cost countries. By doing so, the government numbers mask the real link between job loss and American competitiveness.

The plain fact is that the U.S. is losing jobs, in part, because foreign suppliers can offer a cheaper alternative. After we make the appropriate statistical adjustments, we see that imports have risen since 2007, helping explain part of the weak employment picture. By contrast, the story told by the official statistics—that imports have barely risen and therefore have nothing to do with job loss in the Great Recession—defies common sense.

Once we have accepted that the job drought is at least partly tied to lack of competitiveness, we can start talking about the best economic policies to adopt. Obama’s manufacturing initiative is a good first step, breaking the complacency that has haunted Washington. However, a lot more can be done, ranging from better training for workers to targeted regulatory and tax reform to an improved atmosphere for innovation. Policies that shift us from a consumption economy to a production economy are essential to recapturing competitiveness and generating sustainable economic growth.

Endnotes

¹ Annie Lowry, “White House Offers Plan to Lure Jobs to America”, New York Times, February 2, 2012.

² See, for example, Susan Houseman, Christopher Kurz, Paul Lengermann, and Benjamin Mandel, “Offshoring Bias in U.S. Manufacturing,” *Journal of Economic Perspectives*, Spring 2011:

<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.25.2.111>.

³ Michael Mandel, “Where the Jobs Are: The App Economy,” TechNet, February 2012.

⁴ Michael Mandel and Diana G. Carew, “How A Competitiveness Audit Can Help Create Jobs,” Progressive Policy Institute, November 2011:

<http://progressivepolicy.org/policy-brief-how-a-competitiveness-audit-can-help-create-jobs>.

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The Progressive Policy Institute (PPI) is an independent research institution that seeks to define and promote a new progressive politics in the 21st century.

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