Forbes

Exports Create Better Jobs, But Not Necessarily More Jobs

Feb. 15 2011
Posted by Robert McTeer

Much has been made of the increase in exports last year and the jobs exports create. The president has announced a goal of doubling exports by 2014. Coming off a depressed level, U.S. exports rose nearly 17 percent in 2010 to $1.8 trillion. At year end, exports increased $2.8 billion from November to December. The December increase is expected by some to cause an upward revision in fourth-quarter real GDP.

All this is well and good. Export growth is a good thing. However, the impact of exports on jobs and GDP must be considered in conjunction with the accompanying increase in imports. In both the year as a whole and in December, imports increased more than exports, and the trade deficit increased.

Exports generally create jobs at home; imports generally create jobs abroad. Exports and imports tend to move up and down together, through causation not just coincidence; so, the net impact on jobs either way is minimal. Furthermore, whether we have a small net gain or net loss as a result of international trade is not only hard to anticipate in advance, it's even hard to determine after the fact. Even so, the net gain or net loss will be small, however, because exports and imports move up and down together.

Let me hasten to inject here that imports are not bad; they are the fruits of trade. The benefit to consumers of exports is that they enable and finance imports. Imports are treated as a minus in GDP calculations to correct for the over counting caused by the import content of the other spending categories: consumption, investment, government spending, and even exports. Imports are subtracted, not because they pull down GDP, but, because not subtracting the import content of the other categories, would lead to an overstatement of spending on domestically produced goods and services and an overstatement of GDP.

I'm not saying that increased foreign trade is not a good thing. It's a very good thing. It increases our standard of living. It extends the benefits of the division and specialization of labor; it increases our productivity in much the same way as technology does. It makes our jobs more productive. International trade enhances, in the words of Adam Smith, author of the Wealth of Nations.

While international trade moves our jobs into more productive activities, takes advantage of our comparative advantage, makes our labor force as a whole more productive, it does not necessarily create more jobs than it destroys in the short term. Again, since imports and exports generally move up and down together, the impact on jobs will be roughly offsetting even in short time periods. In longer time periods, the pluses and minuses converge on equality.

This conclusion is not obvious to most people because jobs lost because of imports (or outsourcing, or factories relocating abroad) are more visible and more easily associated with trade than the jobs created by exports. Jobs created by foreign auto companies moving to the U.S. to produce cars are obvious, but much of what we export is also consumed domestically and the export share isn't visible or obvious. Its hard to properly identify many jobs as related to an expansion of exports; it's even harder to identify them indirectly with an expansion of imports.

The U.S. has had a trade and current account deficit for many years, so the matching of jobs created and lost through international trade may not have resulted in a perfect match because of export and import equality. However, a country with chronic deficits must pay for those deficits with capital inflows from our trading partners, and the capital inflow will tend to put downward pressure on interest rates and be stimulative to the domestic economy. So the financing of the gap between imports tends to close any related job gap. It works in reverse for chronically surplus countries.

The logic above does not prove an exact job match at all times resulting from exports and imports, but it does indicate an approximate match. The match is not a matter of coincidence; it's a matter of causality. Our exports result in an accumulation of foreign exchange that can be used for imports; our imports give potential importers abroad dollars to spend on U.S. goods and services. The exporters don't have to be the importers, and vice versa. Proceeds of exports will be available through the foreign exchange market to importers who need it. A significant and prolonged imbalance will put pressure on exchange rates to encourage the balance I'm describing.

If you find the above totally unconvincing, just remember that in the long run, the supply of labor is just as important in determining the level of domestic employment as the demand for labor. Over time, inadequate demand will be offset by declining wages and other costs of employment.

In conclusion, encouraging exports is not likely to be a source of net new jobs domestically because of the offsetting impact of more imports on jobs. However, the expansions of exports and imports that go together will be good for our standard of living. There are great benefits to trade–just not in the net number of jobs. Encouraging exports, and the goal of doubling exports by 2014, are good things if they are done by removing obstacles to exporting. They are not good if they involve government subsidies that distort market forces.

Since exports and imports do move up and down together, logic suggests that exports can be encouraged indirectly by encouraging imports. By all means, complete the free trade agreements in the pipeline. Beyond that, unilateral relaxation in trade restraints should be considered. Remember, imports are the returns to trade; exports are the cost of trade.