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IMPORTS AND ECONOMIC WELFARE IN THE UNITED STATES

Remarks By

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before the

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Andrew F. Brimmer*

Last October, when I accepted the invitation to appear before this Association at this time, I indicated that the subject matter of my remarks would concern "The Dollar at Home and Abroad: Perspectives on the International Economic Position of the United States." That umbrella topic was chosen because it was impossibe to anticipate at that time the outcome of the multilateral negotiations then underway among leading industrial countries to realign foreign exchange rates. But it was understood that I would focus on a more limited aspect of the general subject--the specific topic depending on the circumstances prevailing in the international arena at the time I actually appeared before you.

In the meantime, an historic realignment of exchange rates has occurred, and its general features have been thoroughly and widely reported. While the international payments system established at Bretton Woods facilitated the growth of world trade and investment for more than a quarter of a century, serious imbalances among the leading industrial and trading nations did develop in recent years. Undoubtedly, the principal manifestation of this disequilibrium is the large and persistent deficit in the United States balance of payments.

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I am indebted to several members of the Board's staff for assistance in preparation of these remarks. Mr. Samuel Pizer had overall responsibility for the staff effort. Mr. Daniel Roxon made the estimates of employment effects of foreign trade, and Mrs. Barbara Lowrey helped with the analysis of the effects of import restrictions on consumer prices. Mrs. Betty L. Barker also provided assistance in the analysis of both employment and price effects. Of course, I alone bear responsibility for these remarks.

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The elimination of that deficit has been an important national objective, and the realignment of exchange rates agreed to last December in Washington should help us achieve that goal over the next few years.

A keystone of that agreement was the decision by the United States to propose a devaluation of the dollar by 7.89 per cent. On February 9, the U.S. Treasury Department transmitted to the Congress a proposal to raise the official price of gold by 8.57 per cent (from $35 to $38 per ounce)--and thus fulfill the pledge made at the Smithsonian meeting. Another feature of that agreement was the expectation that the United States would obtain significant modifications in trade practices abroad that actually or potentially hampered our exports.

In the last few weeks, the United States has worked out liberalizing arrangements for some exports to Japan and the members of the European Economic Community (EEC), and discussions are continuing with Canada. Moreover, on February 11, the United States and the EEC jointly called for multilateral discussions starting in 1973 with the aim of erasing existing barriers to trade. Australia and Canada have indicated their support of such talks, and the support of other countries is also being sought.

Against the background of these events, the foreign exchange markets are still adjusting to the rate realignment and the existence of wider margins of fluctuation. Congressional hearings on the gold price bill are scheduled to begin next week. Consequently,

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under these circumstances, I decided to focus my remarks today on one aspect of U.S. international economic relations where the issues involved are clearly drawn--although by no means settled. I thought that a discussion of the relationship of imports to the welfare of American consumers would be both interesting and of considerable domestic significance at this time.

In the view of a sizable number of Americans, imports are "bad" while exports are "good." Of course, this unfavorable view of imports is not hard to understand: it is partly a legacy of the eighteenth century mercantilist notion that a nation could increase its wealth by selling more to foreigners than it bought from them--and by collecting the favorable balance in gold! But it is also partly the result of a more modern idea that a country can increase domestic employment through maximizing exports while keeping imports to a minimum. Undoubtedly still other sources of the bias against imports could be identified. But whatever the explanation, the net result is to create a bad image of imports in the eyes of a sizable proportion of American citizens. In fact, with few exceptions, the same situation exists in most other countries.

In our own land, the hostility toward imports is probably more widespread than it has been for many years. One can detect this hostility in public opinion polls, newspaper editorials--and above all in the polemics of protectionist organizations. Moreover, it appears that sentiment in Congress is becoming increasingly sympathetic toward plans to limit imports. I had hoped that the campaign to place

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severe restraints on imports had passed its highwater mark a year or so ago when the effort to impose quotas on textiles and shoes failed to win Congressional approval. Sadly, however, a new--and far more comprehensive--movement to restrict imports has been launched, and a number of supporting voices are being heard in both houses of Congress. One particular proposal would impose quotas on an extremely broad range of imported commodities while also severely limiting foreign direct investment by U.S. corporations. In the public at large, a noticeable number of traditional defenders of freer trade (especially some segments of organized labor) are abandoning their positions to join the ranks of the protectionists.

This rising tide of protectionism is not only distressing: it is also fundamentally against the best interest of American consumers. If the effort is successful and imports are severely limited by quotas, the range of consumer product choices will be narrowed considerably; consumer prices will be appreciably higher, and the burden will fall most heavily on those low-income groups least able to bear the costs.

Given this prospect, it is urgent that those of us who believe in the benefits of freer trade do what we can to help prevent the protectionists from building a fence around the American market. We must not be misled by the mistaken argument that the advocates of restrictions of imports are protecting the jobs of American workers. I am aware of the spurious argument which holds that "workers are consumers," "consumers have to work in order to consume," so the interest of the

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two groups are the same. The fact is that workers work for income, and they maximize their welfare by spending their income on as wide a range of goods and services as possible--paying the lowest prices they can find. To obtain income, it is obviously necessary for most people to work, and the expansion of job opportunities is obviously important. But we must avoid confusing the situation of consumers with that of employees in particular industries.

The rest of these remarks is devoted to a discussion of imports and economic welfare in the United States. The principal focus is on the employment effects of foreign trade and the costs to consumers of restricting imports by quotas and similar devices. Several key conclusions can be summarized here:

--Studies I have made suggest that the foreign trade sector of the United States economy may be generating more than 750,000 jobs, even after allowing for the number of jobs that might be displaced by competitive imports.

--The existing quotas on sugar may be costing American consumers as much as $300 to $500 million each year, and the recently arranged agreement restricting imports of man-made fiber and woolen textiles into the U.S. may cost consumers as much as $300 million in 1972. Petroleum quotas apparently cost consumers an extra $5 billion in 1969 alone.

--Competition from imports also helps to dampen increases in prices of domestically produced products. This conclusion is clearly suggested by the behavior of prices for several categories of items during the inflation that has prevailed in this country since the mid-1960's.

These and several other points are explored more fully below.

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Growth and Importance of Imports

In 1971, imports amounted to $45.7 billion. Exports totaled $42.8 billion. So last year the United States recorded a trade deficit of $2.9 billion.* The trade deficit in 1971 reflected a year-to-year rise of nearly 15 per cent in imports in contrast to a gain of about 2 per cent in exports. Over a longer horizon, the growth of imports has been equally dramatic. Between 1961 and 1971, the level of imports rose by $31.1 billion, an increase of 214 per cent. Over the same decade, exports rose by $22.6 billion, an increase of 113 per cent.

While exports have grown only slightly faster than the American economy as a whole during the last decade, imports have grown about 1-1/2 times as fast. As a result, the ratio of imports to gross national product (GNP) climbed from 2.79 per cent in 1961 to 4.36 per cent in 1971. At the same time, the export-GNP ratio edged up from 3.87 per cent to 4.08 per cent.

The main explanations of these divergent trends are widely known: the rapid expansion of aggregate demand in the United States (especially after 1964) induced a significant rise in imports of materials required to sustain domestic production. As the economy expanded, consumer incomes rose appreciably, and a sizable share of the increase was spent on foreign goods. Moreover, because of the inflation associated with the Vietnam War, the competitiveness of U.S. exports declined progressively. Simultaneously, foreign

*These figures for trade are those used in the balance of payments accounts.

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producers found it increasingly possible to undersell some U.S. products in our own market. Although trade barriers executed or maintained by some of our principal trading partners clearly hampered the growth of U.S. exports over the last decade, the basic disequilibrium in our own economy in the last half of the 1960's--aggravated by the rigidity of exchange rates--was a major cause of the sluggish performance of exports in the face of a vigorous advance in imports.

Overall Importance of Imports

While imports represent only a small share of total GNP (4.36 per cent), their importance in the supply of goods available in the United States is much greater--in excess of 8 per cent. In a number of particular sectors and industries, the share is even higher. In this context, we can put aside those categories of commodities in which imports are our only source of supply--such as bananas, coffee, cocoa and tea.

In the last two years, over 15 per cent of new automobiles purchased in the United States were foreign-type imports (cars imported from Canada are considered to be domestic-type). In other consumer goods lines, imports were equally or more important. For example, in 1970, imports represented the indicated percentages of domestic supply in the following lines:

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Item	per cent	Item	per cent
35 mm still cameras	100	Sewing machines	49
Magnetic tape recorders	96	Sugar	45*
Motorcycles	90	Leather gloves	30
Hairwork (toupees & wigs)	85	Footwear (non-rubber)	30
Radios	70	Liquors	28*
Amateur motion picture cameras	66	Flatwear	22
Black and white TV's	52	Canned sea food	20*
		Wine	20*
		Textiles (including apparel)	12

* Percentage in 1968, the year for which latest data are available.

Of course, imports are not limited to consumer-type goods. Many of our imports are industrial materials which are essential to domestic production. For instance, in 1968, imports constituted the following percentages of domestic supply.

Item	per cent	Item	per cent
Natural abrasives	100	Pulp mill products	31
Manganese ores	95	Copper (smelted)	27
Bauxite	86	Lead and zinc ores	27
Scouring products	40	Potash	27
Iron ores	35	Steel	15

In interpreting these rough measures of U.S. market penetration by imports, one should remember that the ratios summarize greatly varying situations in a number of large and diverse product lines. For instance, in both textiles and steel, there is a significant number of specific and major product categories in which imports account for well over half of total domestic consumption. Nevertheless, taking the economy as a whole, imports still represent only a modest fraction of total production, and foreign producers have captured only a small share of the overall market in the United States.

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U.S. Foreign Trade and Domestic Employment

As I indicated above, opposition to imports is increasing partly because the inflow of foreign goods is said to have an adverse effect on American jobs. With domestic economic activity moving at a slow pace last year--and with the number of unemployed now exceeding 5 million--this opposition to imports has been further strengthened. Thus, it might be helpful to put in perspective the effect of U.S. foreign trade on domestic employment.

In interpreting the estimates presented below relating domestic employment to foreign trade, it is necessary to keep their tentative nature in mind. In making the estimates, care was taken to spell out explicitly the assumptions made and the nature of the statistical information on which I relied. The use of estimates, of course, cannot be avoided if economic analysis is to be employed for the illumination of vital issues of public policy. So, while the figures must be used with caution, they do provide an indication of the magnitudes involved.

The number of jobs related to our foreign trade--that is, generated by imports as well as by exports--is not insignificant. In 1969, according to estimates made by the Bureau of Labor Statistics (BLS) in the U.S. Department of Labor, about 2.6 million jobs could be attributed to the $37.5 billion of exports of merchandise in that year. Thus, about 69,000 jobs were associated with each

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$1 billion of exports in 1969.[1/] Export-related employment covers persons engaged directly in producing for exports (termed primary employment) as well as those employed in industries supplying goods to those industries which actually do the exporting (termed indirect export employment). According to the BLS studies, the ratio of primary to indirect export employment is approximately 1 to 1--that is, for every job in the industry doing the exporting, there is a supporting job in another industry providing goods to the export industry.

The number of jobs currently related to exports apparently is roughly the same as that estimated by BLS a few years ago. This conclusion is based on a new estimate which I made using the BLS technique to update the latter's 1969 figures. According to my rough estimate, there were approximately 2.65 million jobs related to export activity in 1971. Since the value of merchandise exports last year amounted to about $40 billion (in 1969 prices),

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1/ The BLS estimates of employment related to exports was derived by first determining output generated in individual industries by exports. Through an analysis of input-output relationships, both the primary and indirect outputs generated were calculated. The outputs for each industry were then translated into employment by estimated average output per person (productivity). The employment estimates for each industry were summed to get an overall employment estimate. The estimated average employment per $1 billion of exports was derived by dividing this employment estimate by the value of exports in 1969.

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there was an average of 66,000 jobs per $1 billion of exports.[2/] This estimate suggests that increased productivity in export industries has almost kept pace with the growth of export volume, so there has been little net gain in export-related jobs.

In the aggregate, export employment accounts for about 4 per cent of total private employment. However, the relative share of export-related employment is much higher in a number of important sectors. About 9 per cent of total employment in agriculture in 1969 was related to exports, while in the manufacturing sector BLS estimated that exports accounted for about 7 per cent of total employment--or about 1-1/2 million jobs. Among manufacturing industries, the contribution of exports to employment was particularly high in the construction machinery industry (27 per cent), engines and turbines (15 per cent), office and computing machines (13 per cent), and aircraft (14 per cent).

2/ To update the employment estimates from 1969 to 1971 in a rough manner, I relied on the BLS techniques. Two statistics were needed: (1) the change in the volume (real) of exports from 1969 to 1971; this was 6.3 per cent. (2) the change in output per person (productivity) from 1969 to 1971; this was 4.4 per cent. Export employment in 1969 was 2,600,000 jobs; if this number is multiplied by the index of increase in real exports from 1969 to 1971--i.e., 1.063 per cent--and the product is divided by the increase in productivity, the result is the number of 1971 export-related jobs. The calculations for estimating export employment in 1971 are as follows:

(1) Export employment, 1969	2,600,000
(2) 1971 export volume relative to 1969	1.063
(3) 1969 employment times 1971 volume index [(1) x (2)]	2,763,000
(4) 1971 productivity relative to 1969	1.044
(5) 1971 employment adjusted for increased productivity [(3) ÷ (4)]	2,646,000

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Import-Related Employment

The estimation of domestic employment related to imports is far more difficult than was the case with exports. In the first place, some imports clearly compete with domestically-produced goods. So the task here is to estimate the employment that theoretically might occur--assuming other factors are constant--in the event that these imports were produced in the United States. Secondly, other imports do not compete with domestically produced goods but rather are necessary for domestic production or require distribution and marketing services. Thus, they increase employment opportunities in the domestic industries using the imports. In order to get some measure of the employment effects of imports, it is necessary to classify imported products according to their competitiveness with domestic products. This, of course, is no simple task, and--frankly--no one has been able to devise a uniformly acceptable method to do this.

However, if the assumption used by the BLS in developing estimates of the "hypothetical" employment that might result from producing "competitive" imports in the United States is accepted (i.e., that 75 per cent of all imports fall into this category), the number of such jobs was approximately 2.4 million in 1969. In view of the sharp rise in the volume of imports since 1969 (about 12 per cent compared with a much smaller increase in output per person),

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it is not unlikely that the number of such jobs in 1971 was somewhat higher. As with exports, the employment estimates include both direct employment necessary to produce the item and the indirect labor necessary to provide the supplies, material and services incorporated into the final commodities.

Again, as noted above, the sharp rise in the number of jobs affected has aroused labor unions and others to become increasingly critical of national policies promoting freer trade and less mindful of the advantage of such a system to the domestic economy. Consequently, the employment aspects of foreign trade might be elaborated somewhat further.

It is important to keep in mind that estimates of employment gains from restricting imports represent "hypothetical" employment. They do not represent the actual number of jobs lost because of imports which would be gained in the absence of imports. For example, without a concerted effort to reallocate resources, the U.S. would be unable to find people with the requisite skills--not to mention other resources--to produce imports domestically. Rather the effort to replace imports with domestic products in recent years would have placed additional stress on the economy and further heightened inflationary pressures. But probably most important of all, a large-scale effort to substitute domestic products for imports would bring about a reduction in exports. Some imported items have embodied materials or components which are exports of the U.S.--for example, automobiles from Canada which incorporate

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parts exported from the United States; imported transistorized appliances which include exported electronic components; and imported textiles which contain domestic cotton. Any employment created by domestic production of imported items which contain U.S.-made components would be offset, in part, by the loss of employment related to the exports of the components. More generally, exports pay for our imports, and restriction of one part of our foreign trade (imports) is bound to react on the other part (exports). Hence the job gains on the import side would be partly offset by jobs lost on the export side. Expressed another way, the jobs related to exports are not independent of imports.

The remaining 25 per cent of imports are generally considered to be "noncompetitive" with goods produced in the United States. These imports include some products which are not produced at all in the United States--e.g., coffee, cocoa, chromite, tea, etc. Of course, it is conceivable that, with a sufficient expenditure of effort and resources, it might be possible to produce some of them domestically, but the amount of employment that would be created is purely speculative and is not of any practical interest. Moreover, there are a number of imported goods that are comparable to domestic goods--but which are in short supply in the United States--such as bauxite, asbestos, and newsprint. These imports supplement domestic production. To expand production of these goods to replace imports would also require a large--and probably very costly--investment of labor and capital.

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Obviously imports that are not produced at all or which are needed to supplement short supplies in the United States are clearly different in their impact on the economy from those which are "competitive" with domestic goods. "Noncompetitive" imports are generally accepted as integral and necessary inputs into the domestic economy, and they are undoubtedly beneficial to domestic output and employment. Certainly there are many U.S. jobs involved in processing, transporting and marketing these goods. These jobs, together with jobs similarly involved in marketing and shipping "competitive" imports, are real jobs that actually exist today, and they are not at all like the "hypothetical" employment that might result from producing competitive imports domestically.

Clearly there must be a considerable number of jobs associated with the $45 billion of imports recorded in 1971. Unfortunately, there are no official estimates of such jobs. However, using the input-output tables and the level of merchandise imports in 1971, I made a rough calculation of the number of jobs associated with the processing and marketing of imported goods which are considered noncompetitive (25 per cent of imports) as well as with the domestic marketing of competitive imports. This very rough estimate suggests that in 1971 about 650,000 jobs were directly related to such activities. Unlike the estimates of jobs

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related to exports and to competitive imports if produced domestically, this estimate does not include the indirect employment which might result from the processing of crude and semifinished industrial materials or other noncompetitive imports. There is no way of determining whether employment in supporting industries is dependent on the existence of these imports. It is possible that the bulk of the employment in such supporting industries also provide materials to industries processing domestically-produced materials, and such jobs would exist without the imports. However, if employment in these supporting industries is primarily dependent on imports, then the estimated 650,000 jobs generated by imports would be on the low side.

There is still another contribution that imports make to domestic employment which is often overlooked. Because of the relative cheapness of foreign products as compared to domestic products, domestic consumers have extra disposable income to spend on other products. For example, in 1971, competitive imports were about $40 billion landed in the United States. If foreign products were 10 per cent cheaper than domestic goods (and I realize this is a crucial assumption), then American consumers would have roughly $4 billion more to spend on other goods than if they had bought these competitive imports domestically. Since it is estimated that about 100,000 jobs are created for every $1 billion of expenditures by consumers, then approximately 400,000 additional domestic jobs could

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result from the savings made by consumers in buying the cheaper foreign goods. (Actually this is overstated since part of the $4 billion saved by consumers would also be spent on foreign goods. If foreign goods constitute about 10 per cent of total expenditures, then the amount available for expenditure on domestic goods would be $3.6 billion with a job contribution of 360,000.)

Overall Employment Effects

To sum up, when one attempts to estimate domestic employment related directly or indirectly to U.S. foreign trade, it is necessary to include: (1) the employment generated by exports, (2) the jobs associated with the processing and marketing of imports, and (3) the employment resulting from consumers buying cheaper foreign products. In combination, these jobs clearly exceed the number of "hypothetical" jobs which might result if competitive imports were produced in the United States. Again, the estimates of foreign trade-related employment presented here are rough, and they should be interpreted with caution. Yet, they do demonstrate that the question of jobs cuts both ways. One may hope that this perspective will be kept in mind as the role of imports is debated.

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Imports and Consumer Welfare

The importance of imports to consumers should not be minimized. The availability of imports means that consumers are able to buy products not produced domestically--or that they are able to choose among a greater variety of styles or a broader range of prices than if only domestically made goods were available. For example in 1970, the Presidential Task Force on non-rubber footwear concluded that "... from the consumer point of view, imports have opened up important new options. The extremely low-priced imports, priced often far below any comparable domestic footwear except canvass-upper, rubber-soled footwear, have provided entire new lines of basic foot coverings. At the other end, there can be little doubt that styles developed abroad in the higher price ranges have also provided new consumer choices." As is widely known, for many years imports of foreign automobiles (such as Volkswagen) offered American consumers the only choice of small cars.

The fact that imports enable consumers to buy lower-priced goods than are available domestically can be documented in a variety of ways. One way is to compare the prices of domestic and imported products where this can be done directly. Thus, in late 1970, the average price of imported footwear and imported apparel was estimated to be only 60 per cent of the price of domestically produced items.[3/] In the case of automobiles, there may be as much as

3/ See Andrew F. Brimmer, "Import Controls and Domestic Inflation," a paper presented at the University of Maryland, College Park, Maryland, November 11, 1970.

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a $1,000 differential between the average price of foreign and domestic-type cars, although, of course, the actual vehicles are quite different. But the imported automobiles are clearly advantageous to lower income consumers. The world price of a barrel of petroleum may be one-third less than the domestic price at the well-head. And the list could be extended still further.

However, an even better way to illustrate the price advantage of imported goods to consumers is to examine the effects of restricting such imports by the imposition of quotas. Several specific cases involving important consumer items can be cited:

Petroleum: Mandatory quotas on petroleum have been in effect for an extended period of time. It is estimated that they have kept domestic prices perhaps more than $1.25 per barrel higher than world prices. According to the Cabinet Task Force on Oil Import Control, which submitted its report in early 1970, "... in 1969 consumers paid $5 billion more for oil products than they would have paid in the absence of import restrictions. By 1980 the annual cost to consumers would approximate $8.4 billion. Without import controls, the domestic well-head price would fall from $3.30 per barrel to about $2.00, which would correspond to the world price. Although we cannot exclude the possibility, we do not predict a substantial price rise in world oil markets over the coming decade." A majority of the Task Force recommended that the present quotas be replaced by a system of tariffs involving a lesser degree of protection.

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Unfortunately, the Task Force's recommendation was not accepted, and American consumers have continued to provide a substantial subsidy to domestic producers of petroleum products.

Sugar: Quotas on sugar imports have been in effect since the mid-1930's. The policy is aimed at stabilizing prices and supporting the domestic sugar industry. While the sugar control program is obviously complex, one undisputed result has been to peg sugar prices in the United States considerably above world prices. One of the reasons why the world price is much below that in the United States is that foreign producers, after supplying their quotas at very favorable prices in the United States, in the United Kingdom, and in a few other countries using quota systems, can afford to sell their residual supplies on world markets at very low prices and realize a reasonable overall profit margin.

If the United States (and other countries) were to remove controls on sugar imports, the price to the U.S. consumer would fall, the world price would rise somewhat, and a single effective price would be established at some level between the two. Of course, the exact level cannot be estimated in advance, but a rough idea can be gotten of the magnitude of the subsidy which American consumers are providing to producers and distributors of domestic sugar. In 1970, total consumption of sugar in the U.S. was over 20 billion pounds. Of this amount, 55 per cent was produced domestically, and 45 per cent was imported. Roughly one-third of total consumption was accounted for directly by consumers, and the remainder served as intermediate

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inputs for industry. In the end, however, consumers of final products had to pay for the full (and higher) costs of sugar. Consequently, using actual prices published, we can estimate the cost of sugar quotas to consumers, although the latter did not purchase directly the entire supply available for consumption.

In the four years 1968-71, the U.S. wholesale price of sugar averaged about 3 cents per pound higher than the estimated import price. (The estimated import price is about 1 cent higher than the world price because of duties and freight.) Given this price differential, the cost of the sugar quota can be estimated. First, we can assume that the domestic wholesale price would be forced down to the prevailing import price in the absence of quotas and that the domestic retail price would fall by the same absolute amount as the domestic wholesale price, i.e., by 3 cents per pound. This reduction of 3 cents per pound, would have saved all American consumers of sugar roughly $600 million, valued at the retail level, in 1970.

Of course, it is entirely possible (and indeed probable) that, with the elimination of quotas, a new price for sugar would fall between the current domestic price and the import price--rather than declining all the way to the current world market value.[4/] Nevertheless,

4/ It should be noted in passing that, in the last few months, the world price of sugar has risen sharply because of production shortages. Experts on the sugar industry see this development as a temporary phenomenon which should pass fairly soon.

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the savings to consumers would still be substantial--perhaps in the neighborhood of $300 million to $500 million.

Textiles: The recently concluded multi-national agreement fixing quotas on imports of man-made fiber and woolen textiles will have a sizable impact on American consumers. The agreement will limit the growth of such imports from Japan to 5 per cent a year, and from Korea, Taiwan and Hong Kong to 7-1/2 per cent a year, compared with an average rate of growth of nearly 20 per cent in the last few years. Consequently, the imposition of the quotas should have noticeable effects. In 1971, imports of such textiles were approximately $2 billion. In the absence of quotas, and if recent growth rates continue, they could rise to perhaps $2.4 billion in 1972 (ignoring the effects of the exchange rate realignments agreed to last December). Under the quotas, however, these textile imports will be limited to a value of about $2.1 billion. Thus, if total demand remains unchanged, an additional amount of textiles (valued at $300 million, f.o.b.) would have to be supplied by domestic producers.

How much more in excess of $300 million will American consumers pay for this foreign dock-side value of goods? It has been estimated that the normal mark-up of imports of textiles and apparel is approximately 50 per cent. So at retail, the quota-prohibited imports would have cost consumers $450 million. However, if we use the relative price of apparel as a means of valuing total textile imports, we would estimate the average retail price of domestically

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produced textile goods to be about 5/3 the price of imported items. On this basis, the domestic retail value of the same $450 million of foreign imported textile goods would be about $750 million, if they were produced and sold domestically. Therefore, American consumers would have to pay about $300 million more than they would have spent on the imported items.

Automobiles: Another illustration of the possible impact of quotas is provided by an estimate of what might have happened if automobile imports had been subject to a quota during the last five years--a period during which imports more than doubled. In 1966, imports of foreign-type cars amounted to 651,000 units. If a quota had been imposed limiting the growth in the number of imported vehicles to 5 per cent per year, by 1971 imports could not have exceeded 830,000. Since the actual level of cars imported was 1,563,000 in 1971, there were 733,000 more automobiles imported than would have been permitted by a quota. If we assume that the total number of cars purchased would have been unaffected by a quota, American producers would have been able to sell an additional 733,000 units.

However, the additional cost to American consumers would have been substantial. As indicated above, the difference in the average price of foreign-type cars and domestic automobiles may be at least $1,000. Consequently, consumers might have had to pay $700-$800 million more for automobiles in 1971 than they actually did. (Again this assumes that the higher prices would not have reduced the level of demand--in actuality an unlikely outcome.)

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The conclusion suggested by these examples is clear: quotas or other quantitative limitations on imports are extremely costly to consumers. While they obviously preserve a larger share of our market for domestic producers, the ultimate burden falls on households and individuals whose real economic welfare is diminished.

Imports and Domestic Inflation

Not only do imports offer consumers the possibility of lower-priced substitutes, but they also help to dampen increases in prices of domestically produced goods. By introducing added competition, imports may encourage more efficient and cheaper domestic production. Several dimensions of the inflation that has prevailed in the United States since the mid-1960's offer evidence suggesting that imports probably helped to moderate price increases of a number of domestically produced items.

Of course, in reviewing this evidence, one must not overlook the fact that other factors besides the availability of imports influenced price movements in particular sectors. Specifically, supply bottlenecks and domestic price support programs undoubtedly played significant roles. But, on balance, the role of imports apparently was also important in dampening price increases in several segments of the economy.

The evidence can be traced generally in the behavior of a number of components of several leading price indexes during the periods 1964-69 and 1969-71. These data indicate that

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in the case of wholesale prices, all commodities in the index (WPI) rose by 12.5 per cent in the 1964-69 period. However, price changes among major categories varied widely.

The effects of quota restrictions on the behavior of domestic prices were particularly noticeable in the case of farm products, a category containing a wide range of items subject to quantitative import limitations. For this group, the WPI rose by 15.8 per cent in the years 1964-69. The rise for foods and feed was especially sharp--e.g., meats, poultry, and fish, 31.6 per cent; dairy products, 22.4 per cent. These increases in food prices undoubtedly weighed heavily on the lowest income groups who must spend a proportionately larger share of their income on food.

If we use the components of the GNP implicit price deflator as measures, an even sharper picture emerges. The total index rose by 17.8 per cent in the 1964-69 years. However, among components, the prices of services and structures (for which there are few foreign substitutes) rose much more rapidly than the prices of goods. The advance for services was 21.7 per cent, and the rise for structures was 26.3 per cent. But of more significance, within the *goods* category, the largest price rises occurred among commodities in which imports could not grow because of quotas.

The same general pattern of price changes is evident in the data for 1969-71. Although the excess demand (generated partly by the Vietnam War effort) had eased considerably by the close of 1969, domestic inflationary pressures continued. Again, the influence

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of imports on the behavior of prices was clear: in general, in categories in which foreign competition was restricted because of quota limitations, prices rose more rapidly than in categories where imports were free to expand.

While we have been focussing on the effects of imports on consumer prices, it is important to remember that imports used as inputs in production may also help to keep down the final price of consumer goods. If producers are able to draw on the cheapest source of inputs (which may come from abroad), then final consumer products can be less expensive.

Concluding Observations

The foregoing discussion should have demonstrated that imports bring enormous benefits to American consumers. The availability of foreign goods broadens the range of consumer choice and also helps to dampen pressures on domestic prices. This conclusion is recognized by most observers--even by those who favor increased restrictions on imports.

However, as I noted at the beginning, the key issue in the debate over import controls turns on the relation between imports and domestic jobs. The evidence presented here clearly shows that foreign trade has a positive effect on domestic employment. Yet, having made this point, I would raise the question of whether a job comparison is the most meaningful way of evaluating the value of trade to the U.S. economy. In one sense, on a job basis one might hope that there were <u>more jobs related to imports</u> than to exports.

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This would indicate that we as a nation are exporting those goods where the level of productivity is relatively high, while importing goods of industries where the level of productivity is relatively low. In this way, we would be fostering those efficient domestic industries while importing items produced abroad in industries in which our production is relatively less efficient.

Perhaps a more relevant evaluation of the impact of trade and its effect on employment should be at the aggregative level and the overall improvement to our society in general. If one accepts the proposition that one goal of our society is to provide consumers with an increasing volume of goods and services at the lowest possible costs, i.e., with an increasingly higher standard of living, one also should be prepared to accept goods from foreign sources as well as those produced domestically. In this sense trade is beneficial to the overall growth of employment and output in the U.S. economy. True, there will be structural problems as imports grow and change in composition. But the overall benefit to our society vastly outweighs the frictional and temporary adjustment problem.

In my judgment, higher imports represent a transitional problem to our economy--although a serious one--and we have to seek ways to reallocate our domestic resources so that we will reap the benefits from trade by providing (both to ourselves and countries abroad) those goods and services in which we are most proficient. In this way, we can maintain the strength of our economy by remaining

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sufficiently resilient and flexible to take full advantage of all the resources available to us both domestically and from the rest of the world. This, of course, is the basis of the principle of international specialization on which the continued and accelerated growth in national and world economic welfare is based.

What must be kept in mind is that the function of exports is to pay, in real terms, for our imports. To the extent that imports involve less real resources (and are thus cheaper in real terms), consumers can obtain more goods than they otherwise could. These savings can be passed on in the form of additional spending, and the stimulative effect of the additional consumer outlays can have a cumulative impact on economic growth and employment.

I do not mean to imply by the above comments that certain industries and individuals are not having serious difficulties as a result of the sizable expansion of imports of finished manufactured goods into the United States in the last 10 years. Obviously certain industries and people do need help. However, restrictions on imports, in my judgment, are simply not the appropriate way to provide this help. Rather, we need retraining, financial benefits, and relocation assistance for labor and other resources displaced by competitive forces (and this includes pressures from domestic sources--such as new technological developments--as well as from foreign competition).

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On the other hand, providing new adjustment assistance to affected industries should not be aimed at perpetuating them indefinitely through a government subsidy. Instead, our objective should be to assist the human and other resources involved to move to those expanding sectors of the domestic economy where they can be employed to greater advantage. This may be to other types of manufacturing or to the production of badly needed services in the health and educational areas.

I understand the national Administration is examining the whole question of adjustment assistance and expects to present a vastly revamped program to Congress that would be much more effective than the one presently used. This is a program which all of us should support.

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