



# Agricultural Trade and the U.S. Economy

## Curriculum Guide

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### I. Goals and Objectives

- A. Understand the importance of exports and imports to the overall economy of the United States.
- B. Understand why trade occurs.
- C. Understand who benefits from trade and why.
- D. Understand how trade influences job creation and industrial competitiveness.

### II. Description/Highlights

- A. While agriculture accounts for 2% of U.S. GDP and 2.8% of the labor force, it represents 10.4% of total exports (\$60.4 billion), 4.3% of total imports (\$33.6 billion), and generated a \$26.8 billion trade surplus in 1996. Agricultural trade contributes employment, income, and economic activity to the U.S. economy. Estimated trade-impact multipliers for 1996 indicate that to produce one million dollars of agricultural exports requires 15 workers. Each dollar of agricultural export sales generated an additional \$1.32 of economic activity. Agricultural exports required the employment of 859,000 workers and generated \$140 billion in business activity.
- B. Imports generate jobs and create economic activity. Leading imports include: crude oil and refined petroleum products, machinery, automobiles, consumer goods, industrial raw materials, and food and beverages.
- C. One way to understand why trade occurs and what benefits it brings, is that nations do not engage in international trade, but rather the individual consumers and businesses within nations do. When an individual in the U.S. buys a Japanese-manufactured stereo component, he or she has engaged in international trade. This participation occurs indirectly through the power of consumer preferences and the competitive pressure faced by the retailers to satisfy them. When a manufacturing firm buys some of its inputs from foreign sources, it also engages in international trade.
- D. The power of competition and individual choice are the core of American economic philosophy and the primary forces that have enabled U.S. citizens to achieve a high standard of living. Competition and individual choice are also why there is international trade.

- E. Faced with the consumer's demand for quality at the lowest price, the competitive pressures of rival firms force businesses to pursue cost-efficient business strategies. While such strategies entail many facets of production engineering and management organization, they also include obtaining factors of production and other business- and marketing- related services at the lowest possible cost.
- F. To a certain extent, the perceptions that jobs in some industries are likely to be eliminated because of trade liberalization are true. However, these perceptions fail to distinguish between the general level of employment in the economy and employment in specific industries.
- G. Protective trade measures, such as tariffs, quotas, or voluntary export restraints (VERs), designed to protect domestic jobs, are not without cost. because there is an additional transfer of resources from the rest of the U.S. economy to a particular industry in order to save specific jobs, there will be fewer jobs created in other sectors, and perhaps even some jobs will be eliminated.
- H. Recent data indicate that the perception of America losing its industrial base is incorrect (Lindsey). During the 1960s, the U.S. was considered by most to be the industrial giant of the world. At this time, manufacturing accounted for about 22% of real gross domestic product (GDP), with the majority of this output in defense and consumer related products.
- I. International trade enables countries to specialize in what they do best and acquire through imports the things they have difficulty in producing. By so doing, resources are more efficiently used on a global, as well as a domestic basis, and these efficiencies are passed on in the form of lower prices and economic growth.

### **III. Potential Speakers**

- A. Extension Economists
- B. USDA or Texas Department of Agriculture Officials
- C. Marketing Club Advisors

### **IV. Review Questions**

- A. Understand how both exports and imports contribute to the economy of the United States. Exports generate jobs, economic activity, and income. Imports also generate jobs and create economic activity, but also result in cost savings to consumers which translate into a higher standard of living.
- B. Explain why trade occurs. Trade occurs because both producers and consumers, as well as the nation, benefit from exchanging goods they can produce most efficiently for goods they cannot produce or that are more costly to produce.
- C. Give an example of how protection may actually increase the cost of goods to consumers and taxpayer costs. The VER placed on Japanese automobiles in 1982 saved approximately 22,000 jobs in the U.S. with an average salary of \$30,000. However, the cost to U.S. taxpayers for each job saved was estimated to be \$180,000. Thus, there was an actual social cost (net or deadweight loss) to the U.S. economy of roughly \$150,000 per job saved.

D. Explain why the United States is not losing its industrial base. America is strengthening its industrial base as a result of liberalized trade. What has changed is the composition of the manufacturing sector's output. The manufacturing share of U.S. consumer goods has declined, being supplanted by capital goods. Along with this change in manufacturing output, the industrial base of the U.S. has become less visible. In terms of comparative advantage, the U.S. appears to have an advantage in the production of intermediate goods and capital goods relative to some labor-intensive consumer goods.

## **V. For More Details**

International Trade Leaflet Series, Leaflets 1 and 2 located at <http://www.ipt.com/intlagmktg/mktinfo/leafindx.htm>



## ! Agricultural Trade and the US Economy

- ☞ Each Dollar in Exports Creates Another \$1.32
- ☞ Jobs Creation and Income
- ☞ Imports and Rising Standard of Living

## ! Why There is International Trade

- ☞ Benefits of Trade
- ☞ Power of Competition and Individual Choice
- ☞ Role of Comparative Advantage

## ! Fallacy of Lost Jobs

- ☞ Overall Level of Employment vs. Jobs in Specific Industry
- ☞ Protection is Short Term Remedy
- ☞ Consumer and Taxpayer Costs over Long Term
- ☞ Inefficient Resource Use and Costs of Protection



## ! Industrial Competition

- ☞ Perception vs. Reality
- ☞ In 1960s, Manufacturing 22% of GDP
- ☞ In 1990s, Manufacturing 23% of GDP
- ☞ Labor Intensity of Manufacturing Has Declined

## ! Gains from Trade

- ☞ Countries and Individuals Specialize in What They Do Best
- ☞ Import Goods More Expensive to Produce
- ☞ More Efficient Resource Use
- ☞ Lower Prices and Economic Growth