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In our opinion: Dispelling the myth of the trade deficit

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The time has come to correct the fallacy that a trade deficit is a bad thing.

It is not.

Yet it is being used to justify an increase in tariffs on certain goods.

A deficit often results because one country's economy — in this case that of the United States — is growing faster than those of the countries with which it trades. Investors are attracted to fast-growing economies. Growth, combined with the influx of foreign investments, leads to higher incomes, which Americans have used to buy more products from abroad.

Those who favor higher tariffs and a need to somehow balance exports with imports imply that a trade deficit is a drag on the U.S. economy. Evidence shows otherwise. The U.S. economy is strong. Unemployment is low and median income was recorded at $59,039 in 2016, the last available statistics. That's the highest level the Census Bureau ever has recorded.

The nation's gross domestic product has continued a steady upward climb through the years, even as the trade deficit has grown. The deficit shrank significantly in 1991 and again in 2009, two years when recessions caused the economy to shrink.

These aren't our opinions alone. Many economists have weighed in on this question through the years.

In a piece for investopedia.com, economic analyst Michael Schmidt argued that trade deficits mean different things for different types of economies.

"For countries where growth is led by exports like oil, industrial goods and other natural resources, the balance of trade will move positively toward a surplus during an economic expansion," he wrote. "In contrast, in countries where growth is led by demand, like the United States, the trade balance tends to worsen during growth stages of the business cycle. This is because these economies need to import even more goods than usual in order to grow."

It follows, then, that slapping high tariffs on imported goods, which actually means slapping higher prices on those goods, will naturally slow economic growth in the United States.

Years ago, Daniel Griswold, who now is co-director of the Program on the American Economy and Globalization at the Mercatus Center, wrote a paper for the Cato Institute in which he argued that the nation's trade deficit is "impervious" to things such as high tariffs and trade wars.

“Slapping higher tariffs on imports will only deprive foreigners of the dollars they would have earned by selling in the U.S. market,” he wrote. “This in turn will reduce the supply of dollars on the international currency market, raise the value of the dollar relative to other currencies, and make dollar-priced U.S. exports more expensive for foreign buyers, thus reducing demand for our exports.

“Eventually, the volume of exports will fall along with imports and the trade deficit will remain largely unchanged.”

But in the meantime, prices would rise significantly for U.S. consumers.

Griswold reminds us, “Nations do not trade with each other; people do.” Today’s trade deficit is the sum of the choices made by individual Americans. Those choices “only take place if both parties to the transaction believe it will make them better off,” Griswold wrote.

Government, naturally, should get out of the way of such transactions.

The U.S. may legitimately argue that other nations are not trading fairly or are undercutting U.S. manufacturers (although government subsidies act as a drag on the economies of those countries that trade unfairly, hurting them more than the U.S.).

But it cannot be argued convincingly that a growing trade deficit over the last several decades has been bad for the U.S. economy.