



Ideas Changing the World

Daily Policy Digest

Trade Issues

September 14, 2010

Are Rising Imports a Boon or Bane to the Economy?

It has become conventional wisdom in reporting on the economy that rising imports and a growing trade deficit are bad signs for growth. All the evidence, however, points to the fact that rising imports and a growing trade gap are among the surest signs that the economy is expanding, says Daniel Griswold, director of the Cato Institute's Center for Trade Policy Studies.

- The Keynesian view that when demand "leaks" abroad the economy grows more slowly and creates fewer jobs neglects the supply-side role of imports.
- More than half of what we import consists of goods consumed by producers -- capital machinery, raw materials, parts and other intermediate inputs.
- Those imports help us produce more, not less. This is one reason why, over the past year, imports of manufactured goods have been rising along with domestic manufacturing output.
- In the long run, imports spur growth by forcing domestic producers to be more efficient and productive.

If the Keynesian worry about imports were justified, we should expect to see a negative correlation over time between the growth in imports and the growth of gross domestic product (GDP). Rising imports would tend to be associated with weaker growth, and slowly growing or falling imports with stronger growth, says Griswold.

- After examining quarterly economic data from the U.S. Bureau of Economic Analysis going back to 1980, Griswold finds a strong positive correlation between the change in real imports to the United States and the change in real GDP.
- Compared with a perfectly proportional correlation of 100 percent, the correlation between imports and GDP is a strongly positive 62 percent.

The Keynesian believers among us may be wishing for a decline in imports, but for millions of Americans struggling in the real economy such a decline would be a curse, says Griswold.

Source: Daniel Griswold, "Are rising imports a boon or bane to the economy?" Washington Times, September 7, 2010.

For text:

<http://www.washingtontimes.com/news/2010/sep/7/griswold-are-rising-imports-boon-or-bane-economy/print/>

For more on Trade Issues:

http://www.ncpa.org/sub/dpd/index.php?Article_Category=42