Print

Saturday, September 11, 2010 11:40 AM EDT

Rising imports may be sign of economic expansion: Griswold

By Hao Li

Many economists are alarmed each time the U.S. trade deficit goes up -- they claim it's evidence that America is losing its competitive egde. Plus, each time America buys something from abroad, it loses out on the wages paid to workers as well as other economic benefits of manufacturing.

However, Daniel Griswold, a director at the Cato Institute, a Washington D.C.-based think tank, disagrees with the notion that rising imports are bad for the economy. Instead, he believes rising imports are "among the surest signs that the economy is expanding."

More than half of U.S. imports are consumed by producers, meaning they are intermediate inputs that American manufacturers use for their final products. That is one reason why imports of manufactured goods rise with domestic manufacturing output, said Griswold.

In the long term, manufactured imports help weed out inefficient U.S. manufacturers of these intermediary products, which allows resources to be allocated in better ways. For U.S. manufacturers of the end products, the better inputs make their products more competitive globally.

The dollars spent on imports quickly returns to the U.S. through trade or investment in assets like real estate, stocks and Treasury bonds, said Griswold. This inflow of capital and demand helps fuel U.S. economic growth.

Griswold actually found the correlation between the increase in real imports and increase in real GDP to be stronger than the correlation between exports and GDP. He added from 1992 to 2000, the economy was strong and imports and the trade deficit rose. Contrastingly, from 2007 to 2009, the economy was terrible and the trade deficit fell.

In 2009, the value of imports decreased from the previous year, which was one of the few times in the past 50 years this has occurred. The other times were in 1961, 1975, 1982, and 2001, which were all recession years.

Email Hao Li in New York at hao.li@ibtimes.com.