



MARKETWATCH FIRST TAKE

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A (wrong) case for why trade deficits don't matter

Commentary: March trade data show a mixed picture

WASHINGTON (MarketWatch) — The trade deficit widened in March, bad news, clearly, for the U.S. economy.

Or maybe not. [See our story on widening trade gap.](#)

Daniel Griswold, director for trade policy studies at the libertarian Cato Institute, has issued a paper titled “The trade balance creed: Debunking the belief that imports and trade deficits are a ‘drag on growth.’”

In Griswold’s words: “Consensus opinion is not always wrong, but in this case it is... Imports are just as beneficial to our economy as exports. Imports deliver lower prices and more variety to consumers while fueling competition, innovation and productivity gains among producers.” [See external link to Griswold's study.](#)

An expanding trade deficit is not necessarily bad news, he said, because it often signals more robust demand for goods and services as well as rising investment and a larger inflow of foreign capital. And the fact that imports are a “drag” on gross-domestic-product calculations is simply an accounting mechanism — it doesn’t mean there would be more jobs in their absence.

At first blush, there’s a case to be made for his view in the March trade data. Exports did hit a record, after all.

But examining the data more closely, one can see that the gains in imports were predominantly oil and related products — basically, Americans are just paying more for the same amount of goods. The gains in imports weren’t entirely inflation-related — computers shot up 19% and the auto segment rose 11% — but demand for consumer goods actually fell.

As a picture of the U.S. economy, then, it looks like U.S. manufacturers are doing well, but the American consumer is not.

Looking beyond March’s data, the problem of running a trade deficit for so long is that it contributes to a savings glut in the exporting countries, and often — as was the case in the past financial crisis — that glut then promotes an asset bubble (say, a housing one).

The broader point that Griswold makes with his analysis — that imports aren’t universally bad — is correct. But that doesn’t mean running a trade gap ad infinitum is a good idea, either.

— [Steve Goldstein](#)

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