Typical Example of Media Mis-Reporting Trade Data

By **Mark J. Perry** Nov 10, 2011, 10:34 AM Author's Website

WASHINGTON POST — "The U.S. trade deficit fell in September to the lowest point this year as foreign sales of American-made autos, airplanes and heavy machinery pushed exports to an all-time high. The deficit narrowed 4 percent to $43.1 billion, the third straight decline and the ***smallest imbalance*** since last December, the Commerce Department reported Thursday.

Through September, the deficit is running at an annual rate of $558.2 billion, up 11.6 percent from the ***imbalance*** for all of last year of $500 billion. A ***higher deficit acts as a drag on economic growth*** because it means fewer jobs for American workers."

MP: The story above from the Washington Post above is a typical example of the media mis-reporting international trade data, for the following reasons:

1. Once we account for **all international transactions** including: a) purchases of goods and services, b) investment income payments and receipts, and c) purchases of financial assets, there is an ***overall balance of U.S. international transactions***, and the "balance of payments" account equals zero. That is, the only way the media can report an "imbalance" is to completely ignore financial transactions and capital flows.

2. The assertion that fictitious "trade imbalances," or "trade deficits" for only goods and services, are associated with "fewer jobs for Americans" is not supported by the empirical evidence. According to research at the Cato Institute by Dan Griswold:

"Trade deficits are routinely blamed for job losses, yet civilian employment grew a healthy 1.4 percent annually during periods of rising trade deficits while job growth was virtually zero during those periods when the deficit was declining. Ditto for the unemployment rate. The jobless rate ticked down 0.4 percentage points per year on average when the trade deficit was on an upward trend, and jumped a painful 1.0 point per year when the trade deficit was shrinking. In four of the five periods in which imports did outpace exports, the unemployment rate fell, and in every period in which imports grew more slowly than exports, or fell more rapidly, the unemployment rate rose."