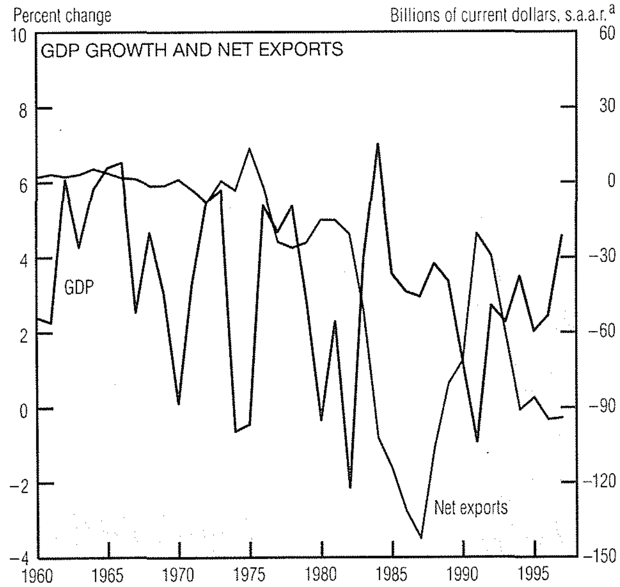
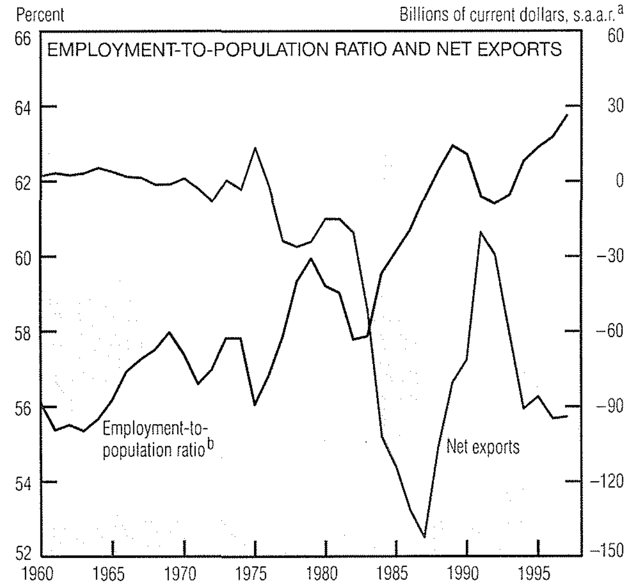
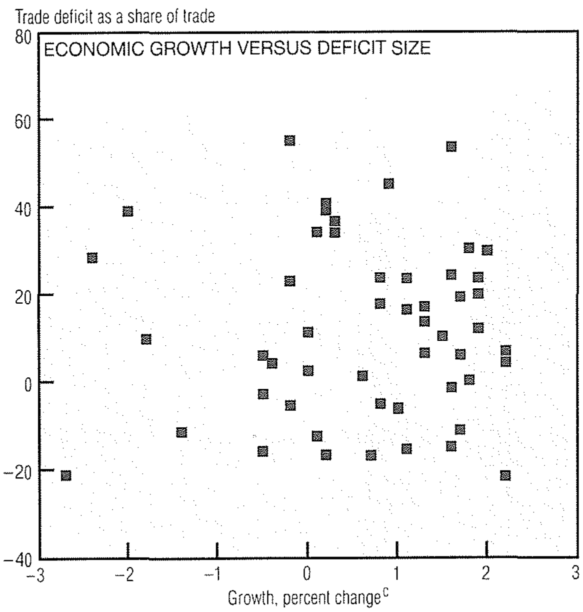
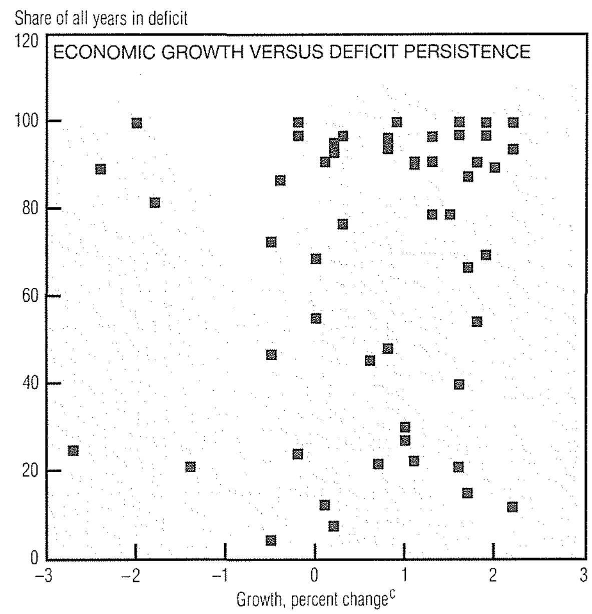
Trade Deficits and Economic Growth









a. Seasonally adjusted annual rate.
b. Seasonally adjusted.
c. Based on trade data and GDP per capita growth rates for 52 countries between 1960 and 1989.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, May 1997; U.S. Department of Labor, Bureau of Labor Statistics; David M. Gould and Roy J. Ruffin, "Trade Deficits: Causes and Consequences," Federal Reserve Bank of Dallas, *Economic Review*, Fourth Quarter 1996, pp. 10–20; and International Monetary Fund, *Direction of Trade Statistics.*

The U.S. merchandise trade deficit jumped unexpectedly in July, rising to \$10.3 billion from \$8.3 billion the month before. Many economists now expect our current account deficit—a broad measure of the U.S. trade imbalance—to exceed \$160 billion in 1997, up from \$148 billion in 1996. To many observers, a persistent trade deficit reveals an inability to compete in world markets that inevitably threatens a nation's standard of living.

The U.S. trade deficit widened dramatically in the early 1980s, and by the end of the decade, we had become a debtor country. Nevertheless, the economy has continued to expand, and employment growth has remained brisk despite the competition from abroad.

The U.S. experience is not a fluke. A cross-country comparison of output growth with either the magnitude or the persistence of trade deficits reveals no correlation over the 1960–89 period. In other words, nations having large and ongoing deficits do not appear to grow more slowly.

The necessary counterpart of a trade deficit is an inflow of foreign savings. Deficit countries can consume beyond their present income, borrow from abroad, and repay their obligations without a diminution of growth. In Benjamin Franklin's words, "No nation was ever ruined by trade."