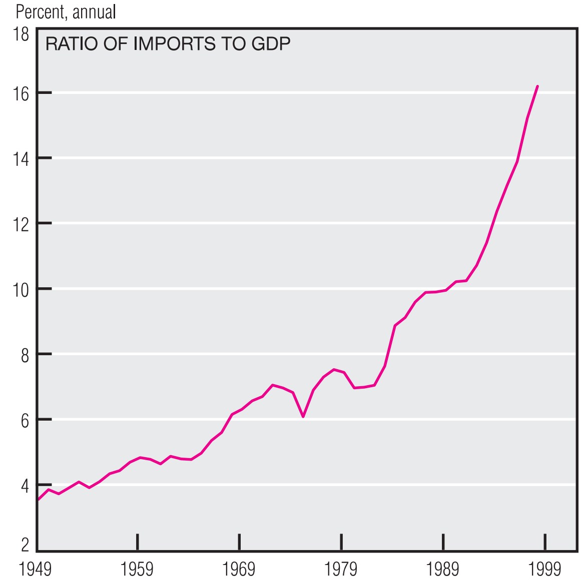
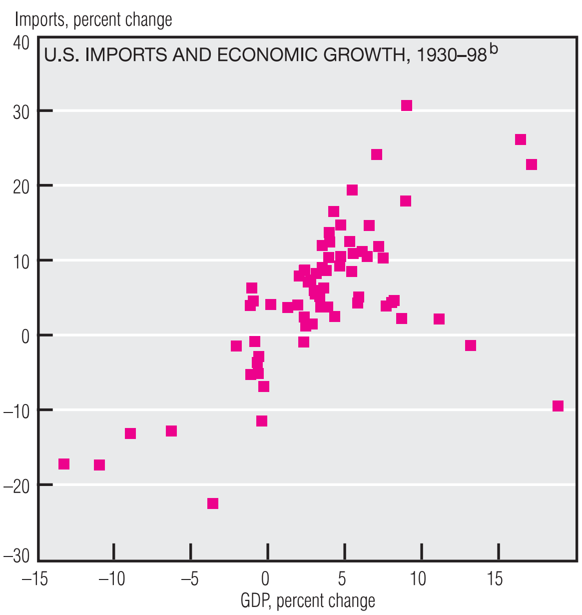
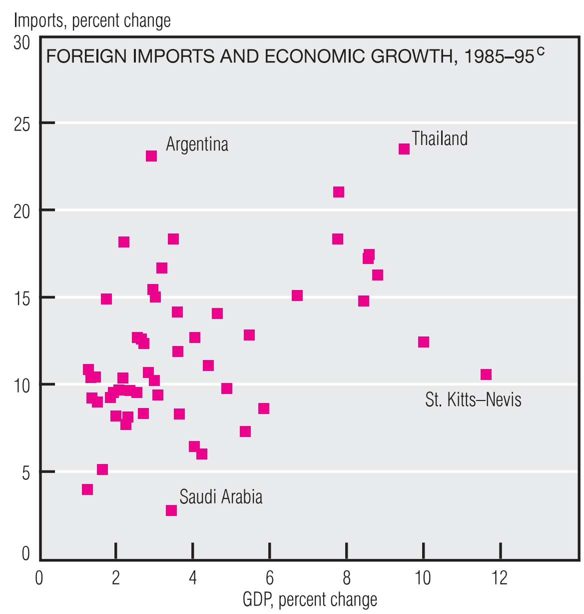
Imports and Economic Growth

GDP and Its Components, 1999:IQ

	Current dollars (billions)	1992 dollars (billions)[a]
Gross domestic product	8,808.70	7,759.60
Personal consumption expenditures	6,050.60	5,331.90
Gross private domestic investment	1,417.40	1,388.50
Government consumption expenditures and gross investment	1,537.50	1,323.90
Exports	962.70	996.50
Imports	−1,159.60	−1,300.10







a. Components of GDP need not add to totals because current dollar values are deflated at the most detailed level for which all required data are available.
b. Annual percent change.
c. Average annual percent change for 54 countries.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and International Monetary Fund, *International Financial Statistics.*

Every news account of the GDP figures—or so it seems—reinforces the common misperception that import spending lowers output. The source of the fallacy is understandable: Imports enter the GDP tally with a negative sign. Because GDP measures the aggregate value of goods and services produced in the U.S., items bought abroad must be taken out. Imports, however, do not reduce GDP.

We pay for our foreign purchases by exporting, by reducing our financial claims on foreigners, or by giving foreigners claims on our future output. In the first case, imports do not lower GDP, because they are accompanied by exports. If one rises (or falls), so does the other. In the latter two cases, we incur a trade deficit, and an inflow of foreign capital accompanies the imports. This capital inflow finances domestic investment, government spending, private consumption spending, or some combination of them. In all cases, the act of paying for the foreign goods contributes to domestic output.

The persistent myth of imports and economic growth belies their historic relationship. Although foreign purchases have risen fairly dramatically as a share of GDP since World War II, economic growth has not faltered. Instead, the data reveal a positive relationship between year-to-year GDP growth and the corresponding percent change in U.S. imports. A similar pattern emerges from a longer-term, cross-country comparison of imports and economic growth. Imports—or so it seems—promote growth.