

UNPUBLISHED:

(emailed to Jeff Faux and carbon copied to letters@washpost.com)

August 15th, 2003

Dear Mr. Faux,

In your recently column in the *Washington Post* you state:

“Economic growth is measured by a change in the real gross domestic product. One of the major components of GDP is net exports. Everything else being equal, when exports grow faster than imports, GDP rises. When imports rise faster, GDP falls. Between 1990 and 2000, imports rose 50 percent faster than exports. The net impact of trade on growth during the decade was undeniably negative.”

(<http://www.washingtonpost.com/wp-dyn/articles/A55857-2003Aug13.html>)

Undeniable negative? Perhaps assuming "everything else being equal" but not in the real world. You are correct that imports did exceed exports throughout the 90's. But to put forth the notion that this hurt GDP is misleading and deceptive. As you know, if you have a trade deficit *by definition* this needs to be offset by either the rest of the current account (rents, interest, profits) or by the capital account (foreign investments in the U.S).

If I buy a T.V. made in Japan for \$100, the store in Tokyo will not accept dollars. They only accept yen. Therefore the bank needs to find someone in Japan who wants to buy something in the U.S. worth \$100 to complete the transaction. If the Japanese citizen on the other end of the transaction wants a \$100 computer made in the U.S. then there will be no trade deficit. On the other hand if they buy \$100 dollars worth of stock, bonds, land, etc. there will be a trade deficit *and* a capital/financial account *surplus*. This surplus you seem to ignore in your analysis. Funding companies or putting land to more productive uses does in fact help GDP.

If I took your argument to the extreme, by banning all imports politicians could instantly add percentage points to GDP and improve the economy. You know this is not true. Only when capital flows to its most productive uses do economies grow. Government restrictions on the flow of goods and capital have the opposite effect.

Any way you look at it the balance of payments must equal zero. Ignoring this basic economic concept by focusing only on the trade deficit weakens the argument you present in the *Post*. I would be interested in any comments you might have on my remarks.

Best regards,

Peter Mork
San Diego, CA