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The Little Black Book of Billionaire Secrets

## The Role of Foreign Trade on GDP

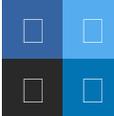

**Bob McTeer**, CONTRIBUTOR

*A former Dallas Fed president, I cover the economy.* [FULL BIO](#)

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The treatment of foreign trade statistics in the GDP estimates is tricky, confusing, and may contribute to an unwarranted aversion to imports. The reason is that we add categories of spending to get to GDP, but we subtract imports. For example, we add Consumption spending to Investment spending to Government spending to spending on Exports, but we subtract spending on Imports to get:  $GDP = C + I + G + X - M$ . It's easy to make the leap from imports being subtracted to get to GDP to imports being a negative in a more general sense. Exports add to GDP, but imports subtract from GDP. Imports must, therefore be bad. Furthermore  $X > M$  is good while  $M > X$  is bad. Right?

No, wrong. Imports are subtracted because the other spending components, C, I, G, and even X all have import components, which generate income


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among our trading partners just as our exports generate income at home. It is easier to subtract imports at the end than it would be to make C net of imports, I net of imports, and so on. Imports don't really reduce domestic income; they just don't add to it. By subtracting them at the end, it is not necessary to make all the other spending categories net of imports. It's merely a convenience.

Nevertheless, we tend to treat imports as some sort of negative or bad thing even though, when you think about it, imports are what we gain from international trade while exports are what we pay in international trade. We export in order to pay for our imports even though that is hard to see since importers and exporters tend to be different people with different motivations. Henry George's famous quote clarifies it best for me. If you are in a war, why does your enemy wish to close your ports? To prevent your exports or your imports? His quote was to the effect that "Protectionists wish to do to you in peacetime [limit you imports] what your enemies wish to do to you in wartime."

What impact did our imports and exports of goods and services have on our first quarter real GDP estimate, released last recently? Well, according to the official report, real exports of goods and services increased 2.9% in the 1<sup>st</sup> quarter, compared to a decrease of 2.8% in the 4<sup>th</sup> quarter. Therefore, exports

alone accounted for a positive change in real GDP of 5.7% from the 4<sup>th</sup> to the 1<sup>st</sup> quarter. However, real imports of goods and services increased 5.4% in the 1<sup>st</sup> quarter compared to a decrease of 4.4% in the 4<sup>th</sup>. Considered alone, the increase in imports was 9.8%, making the net contribution of foreign trade in goods and services a negative 4.1%.

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We continue to import more goods and services than we export, and that gap increased in the 1<sup>st</sup> quarter. Would you call that bad or good? It is good for producers and exporters that we exported more, but it is also good for consumers that we imported more, even though, on balance, foreign trade contributed more to our trading partners income than our own. A net import balance is actually a good thing in that we are getting more from foreign trade than we are paying.

The problem with it is that it is not

sustainable. In the long run, we have to pay for our imports with exports although that discipline works more directly on other countries than it does on the United States since the Dollar is a reserve currency that foreigners are willing to hold and use.

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When we have a net import balance, as we have for many years running, we “pay” for it with by borrowing in the form of a net foreign capital inflow. That capital inflow is a mirror image of the deficit in trade. That “inflow” of capital may take the form of drawing down our bank balances abroad or building up foreign balances in the U.S. or a foreign accumulation of bonds, stocks, real estate here or a de-accumulation of such assets that U.S. citizens own abroad. The details can get confusing (they just did), but we summarize them by saying we pay with a capital inflow or by borrowing from our trading partners.

We became a “net debtor country” around 1985 when foreign assets in the

U.S. first exceeded U.S. assets abroad. If the dollar had not been a reserve currency in high demand by foreigners, we would have had to correct that foreign imbalance long ago. The special status of the dollar makes it easier to borrow (a good thing) and easier to run up a huge foreign debt (a bad thing).

It is ironic that when our trade balance worsens, it has been a sign that the U.S. economy is stronger and foreign economies are weaker because growing domestic income stimulates our demand for imports while weaker foreign income growth lessens their appetite for U.S. goods and services.



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The Little Black Book of Billionaire Secrets

# DEA Delays Kratom Ban, More Senators Object To Process And 'Unintended Consequences'



**David Kroll**, CONTRIBUTOR

*I cover the drugs making the news.* [FULL BIO](#) ☐

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I was on the phone today with DEA spokesperson Russ Baer when the clock struck 5:00 pm on the East Coast without a final order from the agency making two chemicals from kratom Schedule I controlled substances. Baer said that the plan to place the plant alkaloids, mitragynine and 7-hydroxymitragynine, onto the most restrictive classification of drugs of abuse and public health risk is still in progress and “will come sooner rather than later.”

The alkaloids have been known for over a decade to possess some modest opioid actions but their potential benefit for patients with chronic pain and substance dependence was overlooked in the notice of intent to place the botanical chemicals in the same class as heroin, LSD and mescaline.

Meanwhile today, Senator Cory Booker (D-NJ), Sen. Kirsten Gillibrand (D-NY) and Sen. Ron Wyden (D-OR) sent a two-page letter to DEA Acting Administrator Chuck Rosenberg calling for the agency to delay this scheduling order. The Senators objected to the emergency,

temporary scheduling order that could be enacted within 30 days without “a robust process of stakeholder input and discussion of medical, public safety and scientific considerations.”

In the intervening 30 days, kratom advocates and researchers have voiced concern that the botanical dietary supplement does indeed have legitimate medical uses, although not as an FDA-approved botanical drug. Most vocal on the scientific side have been researchers at Columbia University and Memorial Sloan-Kettering Cancer Center. The teams have independently and collaboratively published two papers on kratom-derived chemicals and their potentially beneficial constellation of complex actions on human opioid receptors.

Columbia associate research scientist, Andrew Kruegel, PhD, was specifically cited in the Booker-Gillibrand-Wyden letter to DEA as he led an 11-scientist letter of objection to kratom scheduling that was submitted to congressional representatives on September 2. Kruegel is also first author on a paper published in the *Journal of the American Chemical Society* in May showing the alkaloids in kratom act on opioid receptor signal transmission entirely differently than strong opioids such as morphine, fentanyl and oxycodone, posing less risk of respiratory depression.

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While the work only shows the analgesic action of kratom components in rodent models of pain, the results are consistent with kratom user reports.

The Senators' letter to DEA comes only a day after Sen. Orrin Hatch (R-UT) wrote a similar "Dear Colleagues" letter. David DiSalvo at Forbes [reported](#) that Hatch requested, "the DEA to postpone its plan to emergency Schedule I kratom's alkaloids, Mitragynine and 7-Hydroxymitragynine, 'to allow both for a public comment period and sufficient time for the DEA to outline its evidentiary standards to the Congress regarding the justification for this proposed action.'"

Senators Booker and Gillibrand had also previously introduced legislation in March 2015, with Sen. Rand Paul (R-KY), to order the DEA to move marijuana from Schedule I to Schedule II to allow its medical use in states without fear of federal prosecution. The Compassionate Access, Research Expansion and Respect States

(CARERS) Act would have allowed states to set their own marijuana policies and would allow physician prescribing of medical marijuana in the Veterans' Administration system.

The legislation did not progress during the last session of Congress but Booker and others had hoped the DEA would independently downschedule marijuana this summer in response to a pending petition. **They failed to do** so in an August 2016 announcement.

The Senators closed their letter with a more encompassing view of the societal impact of drug policy:

*Since 1980, our federal prison population has exploded by nearly 800 percent. This increase is a result of draconian drug policies that continue to place nonviolent drug offenders behind bars. We should not, in haste and without adequate opportunity for comment and analysis, place substances in categories that may be inconsistent with their medical value and potential for abuse.*

*For more health and pharmaceutical news and commentary, follow me on Twitter @DavidKroll, or here at [Forbes.com](#).*



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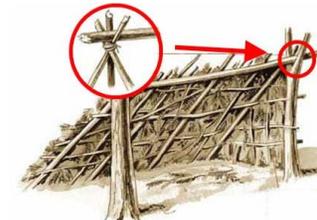
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