

The Washington Post

Trump reveals that his trade deficit fetish is nonsense

Jennifer Rubin

May 22, 2017

Ever since President Trump put a bulls-eye on free trade and declared the “trade deficit” to be the end-all and be-all of our economic strength, a wide array of economists, businesspeople and informed commentators have tried to explain why this is economic nonsense.

The Cato Institute tried in vain to explain Trump’s notions were bunk:

Americans are able to purchase more goods and services from foreigners than they sell to them because foreigners buy more assets from Americans than Americans buy from foreigners. There is a positive inflow of dollars on the capital account. Foreigners don’t only buy goods and services from Americans. They buy U.S. assets (equities, property, factories, service centers, shopping malls, machines, other physical assets, corporate debt, and government debt) from Americans. Likewise, Americans don’t only buy goods and services from foreigners. We buy foreign assets (equities, property, factories, services centers, shopping malls, machines, other physical assets, corporate debt, and government debt) from foreigners, as well.

The New York Times notes that trade-deficit mania “entails crucial departures from economic reality”:

Trade is not zero-sum. Expanded trade has historically tended to support economic growth, which generates more spoils to be divvied up for all.

American factories have increased production over the years, in part by drawing on a global supply chain to get what they need. A construction machinery plant in Illinois may buy ball bearings from China, glass displays from South Korea, computer chips from Malaysia and other parts from Mexico, some of them forged with American-made steel.

Obsessing over the balance of trade with any single country misses all of that. It also distracts from the force that, by many accounts, is the real threat to employment: automation. The decisive problem facing American workers is that making more products has not translated into sufficient numbers of new jobs, leaving millions of people searching for full-time work at wages high enough to pay the bills.

Economists generally dismiss bilateral trade deficits as essentially meaningless, for reasons easily recognizable in the rest of everyday life. Most people surely run lopsided trade deficits with their dentists, handing these professionals their dollars without expecting them to purchase anything in return.

The American Enterprise Institute’s Mark Perry suggested, “To think more clearly about international trade and trade balances, every time in the future that you hear the term ‘trade

deficit' in the media or from a politician, especially when it used negatively to imply America's economic weakness, just replace 'trade deficit' with the term 'vital capital-creating, job-generating foreign investment surpluses for a better America.'"

Now there is a powerful voice to add to the argument against trade-deficit frenzy: Donald Trump. In Saudi Arabia, Trump seems to have figured out that when dollars flow out of the United States to purchase goods (e.g., oil) what comes back is enormously beneficial. On Sunday, he said in his speech to Arab heads of state: "Yesterday, we signed historic agreements with the kingdom that will invest almost \$400 billion in our two countries and create many thousands of jobs in America and Saudi Arabia." Saudis make those investments in the United States in dollars, dollars they derive from selling goods in the United States. Both countries benefit from the exchange of goods, and the United States develops more competitive industries able to make big deals — like arms sales to the Saudis. Foreign companies' (e.g., Toyota, Airbus, Nestle) investment in the United States can take the form of new plants that collectively employ millions of Americans in the United States.

The Saudi situation is no different from our relationship with China, Mexico or any other trading partner. As Perry explained, "In terms of numbers, our recent current account trade deficits of about \$450 billion per year are offset by \$450 billion in annual capital inflows used to purchase America's financial assets like corporate stock and bonds, real estate, bank deposits and Treasury securities, and as foreign direct investment in America's factories and businesses. ... Therefore, in reality, the trade deficit as most people (mis)understand it doesn't even really exist, because America's total trade with the rest of the world is always perfectly balanced once we account for all international transactions for goods, services, investment income, and financial assets."

This is not some accounting or academic error by Trump. The mythical trade deficit is central to his entire economic approach (and the rhetoric in the right-wing echo chamber), one that drives his pullout from the Trans-Pacific Partnership and desire to renegotiate the North American Free Trade Agreement. It is also central to his ill-conceived "buy American" mandate that would have U.S. companies buying, for example, lesser quality and more expensive U.S. parts, which in turn would make our end products more expensive. Take, for example, his arms deal. His son-in-law talked Lockheed Martin into reducing its price for arms to be sold to the Saudis. *One way to do this would be to buy the cheapest component parts from wherever the company can find them.*

Trump's economics is built on fear and ignorance, a transparent attempt to blame foreigners for economic dislocation rather than grapple with tough issues surrounding automation, worker training and the safety net. Too many on the right who should know better refuse to call him out. Now, Trump cannot even claim ignorance. He's the first one to brag that sending dollars overseas means more investment and more jobs back in the United States. So much for the crocodile tears over the trade deficit.