Help Wanted At The Bureau Of Economic Analysis

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Earlier this year, the feds posted a help-wanted ad for a new balance of payments chief at the Bureau of Economic Analysis (BEA).

The agency was looking for someone who "helps maintain BEA's position as the authoritative repository of information on the U.S. international transactions accounts, the U.S. international investment position accounts, and on operations of U.S. multinational enterprises, and of foreign-owned companies in the United States for the use of U.S. government agencies and other interested parties."

Getting the right person for the job would go a long way toward improving U.S. trade policy. The government produces many valuable trade statistics, but the way it describes those numbers makes it easy for people to misinterpret them. The unintended consequence? Policy proposals that would undermine the U.S. economy.

A U.S. flag flies as the city skyline is seen in San Francisco, California, U.S., on Thursday, June 20, 2013. The U.S. Commerce Department's Bureau of Economic Analysis is scheduled to release gross domestic product (GDP) figures on June 26. (David Paul Morris/Bloomberg)

Consider this: The government recently reported that "the goods and services deficit was $43.6 billion in June."

There are at least three big problems with that statement.

First, the phrase **"**goods and services deficit" is arbitrary. The government could just as accurately have reported that Americans had a "$47.6 billion trade surplus for goods and services” because the value of foreign goods and services gained by Americans in April was *$43.6* billion greater than the value of U.S. goods and services gained by foreigners.

Here’s how Mark Perry at the American Enterprise Institute put it: "If you think about America’s ‘trade deficit’ and look carefully at ‘who, on net, ends up with the most stuff (goods),’ you’d conclude that what is typically and pejoratively called a 'trade deficit' is actually a 'stuff surplus.'"

Second, the use of the word “deficit” is misleading because it suggests Americans are running up a debt with other countries. But if your neighbor buys a $300,000 Ferrari, you don’t owe Italy a dime and neither does the United States. Nevertheless, the government calls this transaction a $300,000 increase in the trade deficit. That is extremely misleading to people who, understandably, think of a “deficit” as a financial shortfall.

The way the feds calculate this “deficit” is also flawed. The government counts the entire value of an import as foreign-made, even when it’s not. For example, it counts every iPhone as a 100% made-in-China product, even though less than 5% of the value of an iPhone originates in China. It counts imports of clothing as entirely foreign-made, even though a substantial share of the value is actually created in the United States. (When you buy a T-shirt labeled “Made in Bangladesh,” much of the T-shirt’s value was created by U.S. fashion designers, and a very small percentage by sewing-machine operators in Bangladesh.)

Third, monthly U.S. trade statistics are incomplete. The government’s monthly trade reports ignore financial transactions like foreign investment in U.S. factories. This makes for a very incomplete picture. In 1988, President Reagan pointed out the problem with ignoring foreign investment: “We hear talk about the trade deficit, but we must beware of single-entry bookkeeping. The other side of the ledger shows that the growing, dynamic United States economy has attracted $159 billion in foreign capital into the United States. Trade deficits and inflows of foreign capital are not necessarily a sign of an economy's weakness.”

As the Cato Institute’s Dan Ikenson explained, “The proper way to account for international transactions is to abide the fact that the value of the goods, services, and assets that Americans purchase from foreigners is approximately identical to the value of the goods, services, and assets that foreigners purchase from Americans.”

The government actually misses hundreds of billions of dollars in international transactions, further confusing things. For example, it reported a *$63* billion U.S. trade deficit with Mexico in 2016. But there was also a *$99* billion “statistical discrepancy” in U.S.-Mexico trade and investment figures. Similarly, there was a *$592* billion statistical discrepancy in U.S.-China data, an amount larger than the entire reported U.S.-China trade deficit.