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Trump’s own economic advisers say he’s wrong: The U.S. has a trade surplus with Canada, not a deficit

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WASHINGTON—U.S. President Donald Trump has said over and over that the U.S. has a trade deficit with Canada. Over and over, Prime Minister Justin Trudeau and other Canadian officials have said he’s incorrect.

Now Trump’s own economic advisers have revealed that they also think Trump has it wrong.

This week, Trump’s White House released the Annual Report of the Council of Economic Advisers. The council is a group of three economists appointed by Trump to give him economic advice; its annual report offers an analysis of the performance of the U.S. economy.

And it simply says, in passing, that the U.S. has a surplus with Canada.

“The United States has free trade agreements (FTAs) with a number of countries — some of which represent net trade surpluses for the United States (Canada and Singapore), and some of which represent deficits (Mexico and South Korea),” the report says.

Why is there a U.S. surplus with Canada? The advisers — chairman Kevin Hassett, University of Chicago professor Tomas Philipson and Cornell University emeritus professor Richard Burkhauser — explain that the U.S. has a surplus in the trade of services. While the U.S. has a deficit in the trade of goods, the surplus in services is more than big enough to offset it.

The question of the actual state of the trade balance may seem academic and irrelevant, but it has emerged as a frequent subject of public and private debate between top officials from two countries, including Trump and Trudeau themselves.

The reason is Trump’s vehement insistence that deficits must be eradicated. While most economists say a trade deficit or surplus is not the best way to measure the health of a trading relationship, the president views the figures as key evidence of which country is “winning” or “losing.”

On most occasions on which Trump has publicly mentioned trade with Canada, he has been quick to allege that the U.S. has a major deficit — usually citing a “$17 billion” figure.

“We have a trade deficit with Canada. We have a big imbalance of at least $17 billion,” he said on Feb. 13.

“We lose a lot of money with Canada,” he said on Feb 12.

“We have a trade deficit with Canada of a substantial amount of money. I have a number but they keep arguing, they keep saying no — so I won’t say it, I won’t tell you it’s $17 (billion), OK? We have a trade deficit with Canada,” he said on Jan. 26.

“Seventeen billion with Canada — Canada says we broke even. But they don’t include lumber and they don’t include oil. Oh, that’s not ….My friend Justin, he says, “No, no, we break even.” I said, ‘Yeah, but you’re not including oil, and you’re not including lumber.” When you do, you lose $17 billion,” he said on Dec. 28.

Taking cues from the president, Trump’s top trade official, U.S. Trade Representative Robert Lighthizer, said after NAFTA negotiating session in October: “For us, trade deficits do matter. And we intend to reduce them.” After a negotiating session last month, he claimed that, using Canadian statistics, “Canada has an over $87 billion U.S. dollar surplus with the United States. “

There is no indication, of course, that a president unenthusiastic about policy details and numerical accuracy will be swayed by a sentence or two buried in a lengthy official report he is unlikely to have read.

He has paid no heed to the data that appears on the website of Lighthizer’s department, which says, “The U.S. goods and services trade surplus with Canada was $12.5 billion in 2016.” And it is not clear whether Trump allows the Council of Economic Advisers any role at all in making trade policy.

But the report at least gives Canada additional ammunition to support its accurate argument. Using a different method of calculating the trade balance than some other government departments typically use, it said, “In 2016, the United States ran a trade surplus of $2.6 billion with Canada.”

The advisers also used the report to challenge some of Trump’s other primary claims about trade. Scott Lincicome, an adjunct scholar at the pro-trade Cato Institute in Washington, called it a “stunning rebuke” of Trump and his trade officials.

Trump attributes trade deficits solely to trade agreements he says are unfair, and he claims that fixing the deals will eradicate the deficits. The report said, “Fiscal and monetary policies may be more important than trade policies in determining the magnitude of trade balances.”

Trump says the U.S. economy has been severely harmed by trade in recent decades. The report acknowledged that trade creates costs as well as benefits, but it said, “From 1970 to 2015, the U.S. economy grew threefold, but the total value of goods and services traded internationally increased nearly eleven times in real terms. Indeed, trade and economic growth are strongly and positively correlated.”

Trump speaks exclusively about trade in goods. The report said, “Focusing only on the trade in goods alone ignores the United States’ comparative advantage in services.”

“It really is a vindication for trade experts in the United States and elsewhere who have for over two years now essentially begged the administration to stop focusing on trade balances, to stop ignoring services trade, and to stop claiming trade agreements have been a net disaster for the American economy,” Lincicome said.