

# U.S. Trade Balance: Not Broken and Does Not Need Fixing

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After the Bretton Woods currency exchange system ended and beginning in the late 1970s, the United States began running trade deficits on a consistent basis.

That is the headline Americans are most familiar with.

What is not so well-known is that when dissecting the number into its two components of goods and services, the entire overall deficit can be attributed to the deficit in “goods” — and then some.

In fact, the services balance of trade has been in surplus every year since 1971, rising by more than 260-fold since then.

But no matter — to President Trump, his trade team, and an increasing number of Republicans, the deficit in goods in general and in manufacturing specifically are major problems that have arisen due to negligence on the part of U.S. politicians, and cheating by our trading counterparts.

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**Let's step back** and understand why we are really running a trade deficit in goods.

Three reasons can explain the story in its entirety:

(1) *The forward-looking nature of our policies.* Yes, forward-looking and not negligence or incompetence. Since the mid-1980s, the U.S. has signed 14 bilateral and multilateral trade deals with 20 countries and is presently negotiating 16 other trade deals with more than 30 other countries.

These trade deals have eliminated or significantly lowered tariffs, regulations, bureaucracy, and bottlenecks. While no trade deal has — or will — eliminate all barriers to the free flow of capital, labor, goods, and services, the deals to date have leveled the playing field decidedly by eliminating a significant amount of government interference so that the private sector can operate more freely and allow the chips to fall where they may.

(2) *The economic freedom of the American consumer.* As citizens of one of the freest economies on the globe, trade deals have allowed Americans to meaningfully (though implicitly) reduce the role of government interference in their income-constrained decision-making process about what basket of goods and services to consume.

The ultimate decision to consume more foreign-made goods as compared to domestic-made goods is more than ever made based on the quality received per dollar spent — and is less influenced by government tariffs and other expensive constraints.

(3) *The efficiency of American corporations.* With more and more barriers to trade and investment removed, American investors are now freer to make decisions based on where the most productive locations for economic output are and less influenced by government interference as they were during the Bretton Woods era. The decisions to produce more goods overseas than domestically are now more than ever based on output per labor hour rather than heavily influenced by government barriers.

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**Negative trade balances** are realities of economic freedom and not problems in need of solutions, especially when combined with and linked to the larger models of economic activity.

To President Trump and many Republicans, “fair” trade is now viewed not as “free” trade, but as “equal” trade, a reality that will require significant government interference and regulations to implement, with important unintended consequences.

The American economy will be asked to either accept less “stuff” — that it needs — at higher prices, or more “stuff” it doesn’t need, while demanding reciprocity from our trading partners. Classic economic theory considers *any* resulting increase in domestic output, jobs, and incomes as a deadweight loss on society and not a healthy gain for the economy.

If the goal is to bring back 3 percent-plus growth, the administration and Congress will better serve the American consumers and businesses by not rocking the boat on existing deals, but by accelerating existing trade negotiations, and proposing new ones with new partners so the private sector can better make efficient and productive decisions on consumption and investment.

Demanding Germans buy Chevrolets that they do not want — or else the American consumer will be punished with higher tariffs on the Mercedes and BMWs that they do want — is not the answer.

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