The Trade Deficit Lowers Our Living Standard? It Just Ain't So!

BY DANIEL GRISWOLD

If Americans could figure out a way to bottle and export all the nonsense and half-truths that have been written about the U.S. trade deficit, the alleged problem might fix itself. The first shipload should contain William Greider's latest warning that we are all doomed because Americans buy more goods and services on world markets than we sell.

Greider's central complaint ("America's Truth Deficit," *The Nation,* July 18) seems to be that America's large and growing trade deficit is shipping jobs overseas and dragging down our standard of living—all under the apathetic eye of politicians and experts blinded by "the market orthodoxy of free trade globalization."

His fundamental mistake is to misunderstand what drives the U.S. trade deficit. America runs a perennial trade deficit because, year after year, foreign savers acquire more U.S. assets than Americans acquire abroad. This ongoing capital surplus flowing into our country allows Americans to buy more in global markets than we sell. In that sense, the trade deficit reflects the confidence of global savers to invest and keep their money in American real estate, stocks, bank accounts, and private and public bonds.

Greider notes with disapproval that America is "one of the few advanced economies that suffers from perennial trade deficits." He then notes with approval that Germany and Japan both run perennial surpluses. Of course, one major reason behind those surpluses is that both Germany and Japan suffer from slow growth and stagnant domestic demand. Their overcautious companies and consumers are unenthusiastic buyers in global markets, while their savers tend to look abroad for investment opportunities rather than at home. Neither are conditions we should envy.

If trade surpluses are the key to economic success, why are the economies of prominent deficit countries, such as the United States and Australia, performing so much better than those of surplus countries such as Japan and Germany? GDP and job growth in the United States and Australia have been far superior during the past 10 to 15 years than in either Germany or Japan. Indeed Japan's 15 years of slow growth and Germany's chronic, double-digit unemployment have prompted calls in both those countries for sweeping reform of stifling domestic regulations and noncompetitive "social markets."

Of course, an inevitable result of the capital surplus behind the trade deficit is that foreigners own an increasing share of American assets. By the end of 2004 foreign investors owned about $2.7 trillion more in U.S. assets than Americans owned in assets abroad. This "foreign indebtedness," as Greider calls it, is only partly debt in the normal sense of the term. About half of it is equity investment—real estate, stocks, factories, and business—which no American is obligated to "repay." The $2.7 trillion is not such an alarming figure when you compare it to America's net household wealth of $50 trillion.

Granted, America's trade-deficit story is not all rosy. The current deficit also reflects a lack of domestic savings, which creates demand for foreign savings to meet all our investment opportunities at home. American households are not good savers, and the federal government sets a poor example itself, running large budget deficits that consume our pool of national savings. How-

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ever, those issues are not driven by trade policy but rather by deeper macroeconomic factors that lie beyond the reach of trade policy.

Greider goes on to claim that America's trade deficit has caused "another wave of jobs moving overseas" and "the 30-year stagnation of working-class wages." Neither of those statements stands up to scrutiny.

First, the truth about trade and jobs: Trade is not about more or fewer jobs, but about better jobs. Like new technologies, trade changes the mix of jobs by allowing workers to shift into sectors where we have greater advantages. Of course, not everyone benefits from expanding trade. The adjustment can be painful, but those workers who lose their jobs because of trade are not alone.

In the United States, the number of jobs lost each year because of imports and outsourcing is quite small, perhaps about 400,000. That is a drop in the bucket in an economy that employs 138 million workers. "Job churn" is a fact of life in a healthy, dynamic market economy. According to the U.S. Department of Labor, about 15 million jobs disappear permanently in a typical year, while 16 to 17 million are created. So jobs lost to imports and foreign outsourcing represent only 3 percent of annual job losses in the United States each year.

Meanwhile, the U.S. economy has created millions of net new jobs in the service sector, high- and medium-skilled as well as low-skilled. In the past decade, as the trade deficit has grown, employment in the United States has also grown, by a net 20 million. Today the unemployment rate has once again fallen to a level that most economists would agree is full employment. There is no shortage of jobs in the American economy; indeed, worry is growing of a worker shortage.

Productivity Rising

Job losses in manufacturing have not been primarily because imports are replacing domestic production, but because productivity is rising so rapidly. Since 1980 the productivity of the average manufacturing worker in the United States has increased twice as fast as that of the average nonfarm worker. As a result, Americans are producing 50 percent more manufactured goods in volume than a decade ago, twice as much as in 1980, and three times as much as in the 1960s. We're producing more with fewer workers because today's worker is so much more productive. Americans are producing fewer shoes, shirts, and toys and far more computer chips, chemicals, pharmaceuticals, and sophisticated medical equipment.

As for what American workers earn, incomes in America have not been "stagnant," and certainly not for 30 years. In fact, the average income of Americans has been rising over the long run for all but the lowest-skilled workers. Greider mentions only wages, but wages are just a part, and a declining part, of the total compensation earned by American workers. Real compensation per hour for the average American worker (including benefits and adjusted for inflation) has risen 20 percent in the past decade, and more than 40 percent since the 1970s. By virtually every measure of economic well-being, the typical American family is better off than 30 years ago, and for that we can thank a more competitive, liberalized, and globalized U.S. economy.

American workers can compete in global markets with foreign workers who earn lower wages because we are, on average, so much more productive. Our markets are more open, our capital machinery more sophisticated, our workers more educated, our infrastructure more efficient and modern, and our domestic economy more deregulated and competitive than most other countries, and especially poor countries. U.S. companies are happy to pay higher wages to American workers who produce more in an hour of work.

U.S. companies that invest abroad seek higher profits, not lower wages. Some of that investment goes to lower wage countries such as China and Mexico, but most of it—some 80 percent of outward U.S. foreign direct investment—goes to other high-wage, high-standard countries such as Canada and members of the European Union, where the workers are more productive, the infrastructure more dependable, and consumers more able to buy what U.S. companies sell.

In the end, I suspect that Greider's real lament is not that "market orthodoxy" rules the world (if only that were true), but that the old orthodoxies of protectionism, central planning, and even the milder forms of Japanese and German industrial policy have fallen into deserved disrepute.