U.s. trade deficit

ASSIGN BUSTER

Introduction of a Deficit The very word “ deficit” carries with it a heavy, negative connotation. A deficit is an indication that something of perceived value is lacking. Merriam Webster defines a deficit several ways: (1) “ a deficiency in amount or quality;” (2) “ a lack or impairment in a functional capacity;” (3) “ a disadvantage;” (4) “ an excess of expenditure over revenue;” and (5) “ a loss in business operations. ” Given these definitions, it is no wonder that the topic of the U.

S. trade deficit emanates a picture of doom and gloom for many U. S. fficials.

A U. S. trade deficit occurs when the cost of imports exceeds the earnings from exports; or in simpler terms, the United States as a whole is buying more than it is selling. However, in the realm of international trade, the key word is ‘ trade’. While some may view the trade deficit as a series of irresponsible and lopsided monetary transactions, the ‘ trade’ goes well beyond the simple exchange of goods and money.

A trade deficit does not necessarily equate to a nation in the red, and more importantly, ‘ import’ is not a dirty word. Why Trade? Even though the United States possesses many natural resources and the means to use them in manufacturing, it still cannot provide its people with all that they need or want. This is the reason that the United States participates in international trade. Without international trade, goods would either cost more or simply would not be available.

Additionally, the absence of international trade would require each country to be self-sufficient, consuming only what it could produce on its own. International trade allows each nation to specialize in the production of those

goods it can produce most efficiently. Specialization, in turn, causes total production to be greater than it would be if each nation tried to be self-sufficient (Hall and Leiberman, 2008). Growth of the U. S. Trade Deficit As recorded by the U.

S. Department of State, 1975 was the last year that United States experienced a trade surplus, a year in which U. S. exports exceeded foreign imports by $12. 4 billion.

Only a mere twelve years later did the U. S. trade deficit increase approximately 1, 123 percent, when the deficit ballooned to $151. 7 billion.

The trade gap decreased in subsequent years due to a combination of the depreciating dollar and the economic rowth of other countries that demanded an increase in U. S. exports, and the trade deficit shrank as low as $31. 1 billion in 1991. However, by 1998, economic turmoil in East Asia sent the trade deficit to historical highs (Griswold, D. , 1998.

) Americans were buying foreign goods at a much faster pace than people in other countries were buying American goods. By 2006, the U. S. trade deficit reached an all time high of $753.

3 billion (U. S. Census Bureau, 2008.) Seeing the Truth behind the Myth U.

S. officials’ views of the trade balance are varied. At first glance, a $700+ billion trade deficit points to a clear indication of one country’s fiscal irresponsibility. Some view the trade deficit as irrefutable proof of unfair trade barriers abroad, a lack of domestic industrial competitiveness, a destroyer of domestic jobs, and a lead anchor that drags down the economy

(Griswold, 1998). Unfair trade barriers Foreign and domestic barriers can be a problem. In March 2006, the United States cited 62 trading partners for setting up unfair trade barriers to American exports, with China receiving the largest amount of criticism for inadequate enforcement of laws aimed at protecting U.

S. copyrights of music, movies and computer programs, and for levying unfair taxes on auto parts made in the United States and other foreign countries (AP, 2006). However, “ trade restrictions do not (necessarily) determine the overall U. S. trade deficit, nor do they fully account for the differences in bilateral trade balances. ” For example, in 1998, the United States ran a large trade surplus with Brazil, a country known for its high trade barriers and in contrast, ran trade deficits with its NAFTA partners, Mexico and Canada – two countries open to U.

S. exports (Griswold, 1998). Lack of domestic competitivenessIt has been argued that the U. S. trade deficit is a result of the competitiveness of foreign made products and undervalued foreign exchange rates.

Low valuation leads to foreign-produced goods being cheaper relative to U. S. produced goods, which some view as a competitive disadvantage to U. S. manufacturing companies.

As a result U. S. manufacturers close plants and manufacturing capacity reduces (Palley, T. , 2006.) However, during the four year span from 1992 to 1996, the trade deficit tripled while at the same time “ U.

S. industrial production surged 24 percent and manufacturing output 27 percent" (Griswold, 1998). Loss of domestic jobs Those who oppose trade state a simple argument that " exports create jobs and imports destroy jobs. " Increases in imports can eliminate jobs in specific industries and geographic areas.

In 2004, workers in North Carolina experienced a loss of jobs in textiles and furniture due to increased foreign competition. However, a significant component to remember is that trade affects the types of jobs, not the number of jobs. For example, 1976 was the beginning of enduring and growing trade deficits and from that time through 2005, total U. S. employment rose by more than 40 million jobs (Bureau of Labor Statistics, 2006). Dragging down the economy Theoretically, the U.

S. spending more money on imports than it brings in from exports equates to a loss of earnings and thus, is perceived as a disadvantage to the overall economy. However, " economic theory and experience show that trade deficits are driven by levels of national saving and investment in the U. S.

economy. Growing trade deficits signal improving economic conditions, while shrinking trade deficits often occur in times of economic trouble" (Griswold, 2001). To prove Griswold's theory, on August 12, 2008, the Commerce Department reported that the trade deficit dropped by 4. percent to $56. 8 billion from revised May figures of $59. 2 billion, citing that it was " the smallest deficit in three months.

" Only a few days prior to the Commerce Department report, the Labor Department reported a 5. 7 percent increase in unemployment, along with a

reported 5. 6 percent increase in inflation (the highest increase since January 1991) and a sharp decline of 3. 1 percent in average weekly wages (the biggest decline since November 1990.) Conclusion While it is easy to understand the benefit of having more exports; imports, albeit the opposite, are not necessarily the detriment. Importing goods and services simply means that U.

S. consumers have access to less expensive and/or higher quality goods from countries that can produce them more cost effectively. Imports can be indicative of economically healthy consumers and businesses demanding materials and finished goods within a productive global environment. References Bureau of Labor Statistics.

(2006). Current Employments Statistics. (Series Id: CEU0000000001). Retrieved August 22, 2008 from http://www.

invisibleheart. com/Iheart/TradeDeficitJobs. pdf deficit. (2008). In Merriam-Webster Online Dictionary.

Retrieved August 22, 2008, from http://www. erriam-webster. com/dictionary/deficit Griswold, D. T. (1998). The Cato Institute: The Causes and Consequences of the U.

S. Trade Deficit. Retrieved August 21, 2008 from http://www. cato. org/testimony/ct-dg061198.

html Griswold, D. T. (1998). The Cato Institute: America's Record Trade Deficit: A Symbol of Strength.

Retrieved August 22, 2008 from http://www. cato. org/pub_display. php? pub_id= 4367 Hall, R. E. , & Lieberman, M.

(2008). Macroeconomics Principles and Applications (4th ed.). Mason: Thomson/Southwestern Palley, T. (2006).

The Economics and Politics of Trade Deficits. Retrieved August 22, 2008 from http://www. thomaspalley. com/? p= 58 U. S. Census Bureau.

(2008). FT900: U. S. International Trade in Goods and Services. Retrieved August 22, 2008 from http://www. census.

gov/foreign-trade/Press-Release/2008pr/06/#full U. S. cites China, others for unfair trade barriers. (2006, Mar.

31). USA Today. Retrieved August 21, 2008 from http://www. usatoday. com/money/economy/trade/2006-03-31-trade-partners_x. htm References U.

S. Department of State. (2008). History of the U. S.

Trade Deficit. Retrieved August 21, 2008 from http://economics. about. com/od/foreigntrade/a/trade_deficit_h.

htm