

The Trade War Dashboard

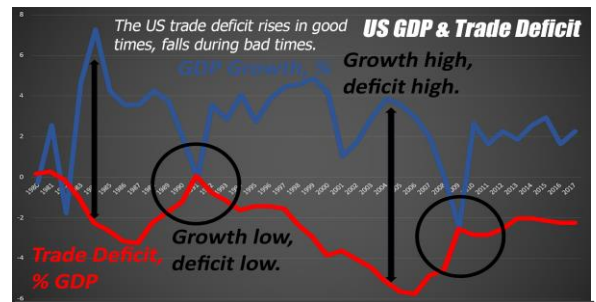
Does a trade deficit mean the US is being cheated?

Part 2: Maybe spending, not trade practices, is behind the US's trade deficit

Trade deficits are more common among successful economies than unsuccessful ones. Trade deficits also rise in good times and fall in bad times. Maybe we should consider other factors that might cause trade deficits, instead of assuming they are because someone is cheating.

Trade deficits rise during recessions

In Part 1 of our “Does a trade deficit mean the US is being cheated” series, we discussed how most prosperous countries, including the US and 4 of the 7 most successful major economies in the world, have trade deficits. The figure to the right shows that trade deficits tend to rise in good times and fall in bad times. These type of indicators suggest that perhaps trade deficits aren't necessarily a bad thing. If that's true, perhaps we should reconsider how we assess trade deficits and what we should do about them.



The US trade deficit rises during economic expansions and falls during recessions, which doesn't seem to indicate that trade deficits are bad.

MLB Rank

2019

P	NY
2 Strike outs/game	17
24 Wins	3
27 HR/game	1

(Out of 30 teams)

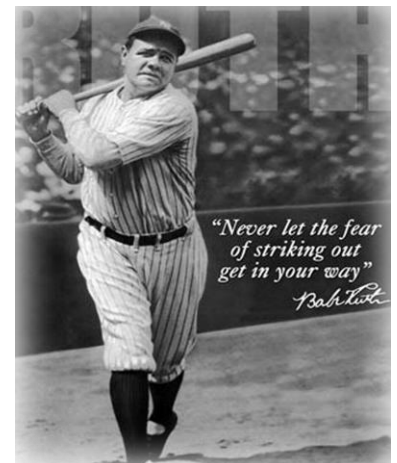
Can baseball help us understand trade deficits?

Strikeouts are not good in baseball. Since the New York Yankees struck out way more than the Pittsburgh Pirates in 2019, you might think the Yankees didn't do as well as the Pirates. In fact, the Yankees won way more games than the Pirates, no doubt because of homeruns—the Yankees hit more than any other team while the Pirates hit fewer than all but 3.

Cause & Effect: Strikeouts vs. Trade Deficits

As the great Babe Ruth demonstrated, strikeouts aren't a problem if they come with plenty of homeruns. To put it another way, if strikeouts come with homeruns and winning, maybe they aren't the cause of a problem but the result of success. The same could be true of trade deficits. If they come with growth and prosperity, maybe they are the result of spending, not the cause of slow growth.

The table below provides a side by side comparison of the NY Yankees strikeout problem and the US economy's trade deficit problem. Neither can be



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improved unless cause and effect are well understood. In other parts to this series on “Does a trade deficit mean the US is being cheated,” we will investigate whether other factors, mainly spending, might be the cause of the US trade deficit, as opposed to the deficit being a drag on growth in the US.

BASEBALL	ECONOMICS
STRIKEOUTS <i>The Yankees strike out too much</i>	TRADE DEFICIT <i>The US has a trade deficit</i>
WINS <i>The Yankees win more than most teams</i>	GROWTH AND PROSPERITY <i>The US is more prosperous than most countries.</i>
HOMERUNS <i>The Yankees hit many homeruns, which explains why they win and why they strikeout so much.</i>	SPENDING <i>The US spends a great deal, a result of its prosperity and the reason why the US has a trade deficit.</i>
Don't decrease wins when trying to decrease strikeouts <i>If the Yankees want to decrease strikeouts, they should not decrease their overall competitiveness by eliminating homeruns, but rather should focus on minimizing strikeouts while maintaining homeruns.</i>	Don't decrease growth when trying to decrease the trade deficits <i>If the US wants to decrease its trade deficit, it should not decrease its competitiveness by raising costs (tariffs), but rather should focus on factors related to spending itself (government deficit, interest rates, savings rate, etc.)</i>