

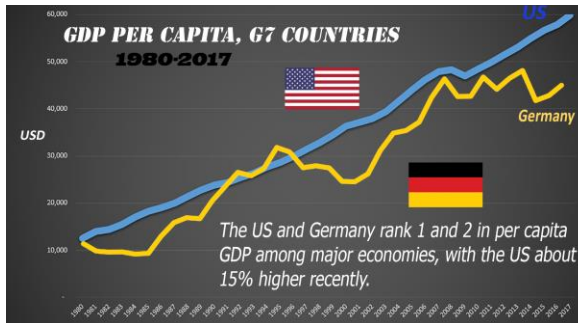
The Trade War Dashboard

Does a trade deficit mean the US is being cheated?

Part 3: Spending is clearly the biggest difference between the US and Germany

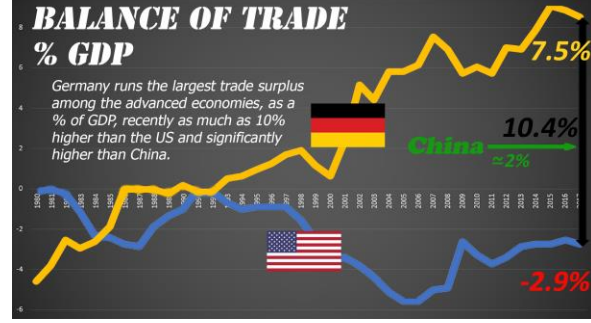
Germany is more like the US than any other economy, except Germany has a trade surplus while the US has a deficit. The two have relatively small differences relative to trade policy but huge differences relative to finance and spending.

US vs. GERMANY: TWO ECONOMIC TITANS



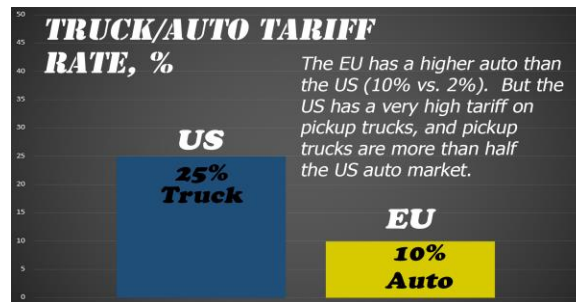
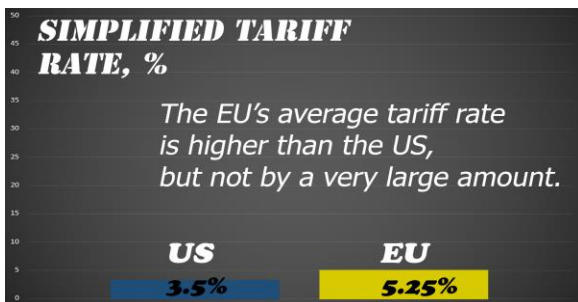
The German and US economies have much in common, including companies that are global leaders across a broad spectrum of major industries. One result is that the US has the highest per capita GDP of any major economy and Germany is number 2.

ONE BIG DIFFERENCE



One of the biggest differences between the two is that, while the US consistently runs a trade deficit, Germany consistently runs a trade surplus.

TRADE POLICY ISN'T VERY DIFFERENT



It would be tempting to say that there must be a huge difference in trade policy. But the difference is that large. The EU has slightly higher average tariffs, but they're still fairly low. While the EU does have a larger auto tariff, the US tariff on pickup trucks would seem to compensate amply for that difference.

But, when it comes to trade, trade policy isn't the only factor to consider.

THE BIG DIFFERENCES RELATE TO FINANCIAL AND SPENDING ISSUES

National Income Identity

$$GDP = C + I + G + (X - M)$$

ECONOMY (GDP AND GROWTH)
CONSUMPTION
INVESTMENT
NET GOV. SPENDING
EXPORTS
IMPORTS
TRADE BALANCE

Basic economics teach us that there are many variables involved in an economy and they are all interdependent. Comparing the US and Germany, the evidence indicates that spending plays a much larger role than trade policy (next page).

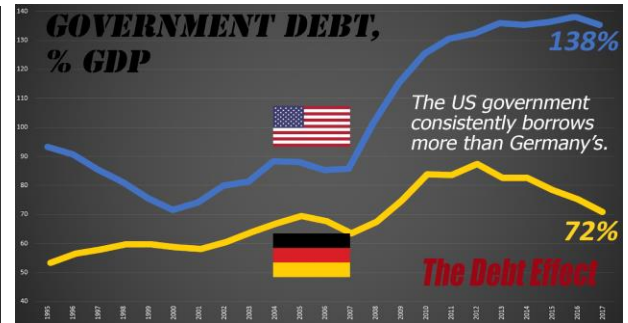
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THE US HAS MORE



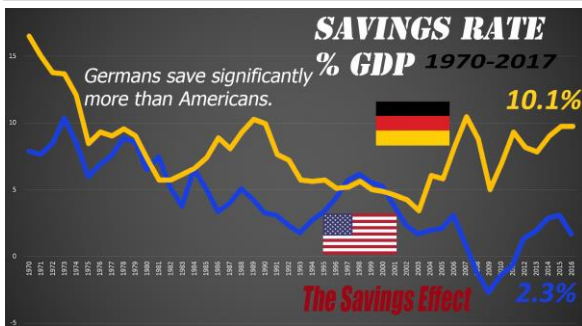
High tech is one area where the US clearly outperforms Germany. This advantage in entrepreneurship might explain why for decades the US stock market has been valued significantly higher than Germany's.

THE US BORROWS MORE



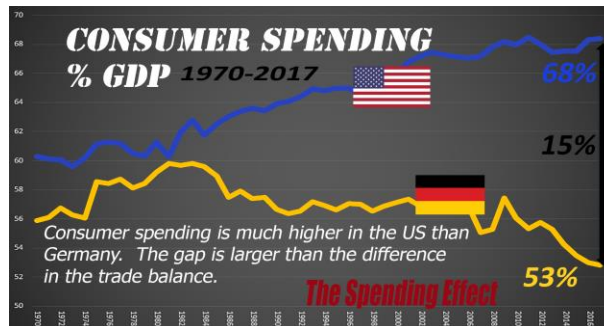
The US government also borrows more than the Germany government, a result of consistently spending more than it collects over many years.

THE US SAVES LESS



The US also saves significantly less than Germany as a percent of GDP.

THE US SPENDS MUCH MORE



The net result is that the US spends much more than China. The spending gap of 15% accounts for more than the entire gap in the balance of trade

INSTEAD OF TARIFFS, MAYBE THE US SHOULD RECONSIDER ITS SPENDING POLICIES

It is difficult to say why—maybe because of higher incomes (per capita GDP) or better stock portfolios (market cap to GDP) or less financial prudence (government borrowing and savings rate)—but there is no doubt that Americans spend **MUCH** more than Germans. If the US wants to decrease its trade deficit, maybe it should consider adjusting its spending habits (less government spending, higher interest rates to encourage savings), as opposed to imposing tariffs. While reducing trade barriers on both sides makes sense, adding tariff is likely to do more harm than good.