Generic Negative: Trade Deficits Don’t Matter

By “Coach Vance” Trefethen

Some AFF cases will contain harms regarding our nation’s trade deficit. A trade deficit occurs when a nation imports a greater dollar value of goods/services than it exports. The U.S. has run trade deficits for decades. This is a generic brief in response to any AFF case that claims to solve for trade deficits, in which we argue that trade deficits are not harmful and might even be a good thing.

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NEGATIVE PHILOSOPHY / OPENING QUOTES

Trade surpluses and the Great Depression

Dr. Walter Williams 2007 (PhD; professor of economics, George Mason Univ.) Trade Deficits: Good or Bad? 17 Jan 2007 <http://townhall.com/columnists/walterewilliams/2007/01/17/trade_deficits_good_or_bad/page/full> (accessed 12 July 2022)

Professor Don Boudreaux, chairman of George Mason University's Economics Department, wrote "If Trade Surpluses Are So Great, the 1930s Should Have Been a Booming Decade" ([www.cafehayek.com](http://www.cafehayek.com/)).

TRADE DEFICIT = CAPITAL SURPLUS

**All that money we spend overseas to import goods doesn’t come back to buy our exports – that’s the definition of a trade deficit. Instead, it comes back to us invested in property, businesses, stocks or bonds – in other words, investment capital. That’s a good thing, not a bad thing.**

Simple explanation about why a trade deficit is a capital surplus

Dr. [Benjamin Powell](http://www.independent.org/aboutus/person_detail.asp?id=1023) 2006 (Senior Fellow at the Independent Institute, Director of the Free Market Institute at Texas Tech University, and former President of the Association of Private Enterprise Education;Ph.D. in economics from George Mason Univ) 5 Oct 2006 Trade Deficit Is Really A Capital Surplus <http://www.independent.org/newsroom/article.asp?id=1832> (accessed 12 July 2022)

Balance of payments accounting is done with a double-entry system of debits and credits. Each transaction involves both a debit and a credit. Put simply, if you buy something from a foreigner, you must pay him—a debit is entered. Then the foreigner must somehow spend or save your payment—a credit is entered. When all credits and debits are added up, the entire accounting system must balance: The current account balance plus the capital account balance must sum to zero. Hence, a current account (trade) deficit implies a capital account surplus.

All trade deficits are completely offset by the resulting capital surplus

Dr. Mark J. Perry 2010 (PhD; professor of economics and finance in the [School of Management](http://www.umflint.edu/som/) at the Flint campus of the [University of Michigan](http://www.umflint.edu/)) 25 Oct 2010 Trade Deficit = Capital Inflow = BOP = 0 .http://mjperry.blogspot.fr/2010/10/trade-deficit-capital-inflow-bop-0.html(accessed 12 July 2022) (brackets added)

In other words, the $700 billion "trade deficit" in 2007 was exactly offset by a $700 billion capital account surplus, or capital inflow, and the overall BOP [balance of payments] = -$700 billion + $700 billion = 0.  What are the lessons from this? 1. There are no BOP [balance of payments] deficits once we account for all international transactions, both for: a) goods and services, and b) financial transactions.  For all of the one-sided coverage in the press about the "trade deficit," you would almost never even know that there is an offsetting "capital surplus" or "capital inflow."  It's important for the general public to understand that trade deficits are offset by capital inflows on almost a 1:1 basis, resulting in a "balance of payments" for international transactions.

“Trade Deficit” is a “capital surplus”: All that excess money we send abroad comes back to the US as investment capital

Prof. Don Boudreaux 2015 (economics, George Mason Univ.) 11 Apr 2015 “Let’s Increase America’s Trade Deficit“ <http://cafehayek.com/2015/04/lets-increase-americas-trade-deficit.html> (accessed 12 July 2022)

Regrettably, Americans are unlikely to absorb Messrs. Kimmitt’s and Slaughter’s important lesson.  The reason is that opportunistic politicians and economically ignorant reporters and pundits incessantly bemoan increases in the U.S. trade deficit and, therefore, treat as harmful any and all economic forces that increase this ‘deficit.’  Yet foreigners cannot invest more in America without putting upward pressure on the U.S. trade deficit.  The reason is (or should be) plain: every dollar that foreigners use to buy dollar-denominated assets is a dollar that returns to America as investment demand rather than as demand for American exports.  America’s capital-account surplus rises.

Capital account surplus (also known as a trade deficit) is a good thing: It means lots of investment in the US

Dr. [Benjamin Powell](http://www.independent.org/aboutus/person_detail.asp?id=1023) 2006 (Senior Fellow at the Independent Institute, Director of the Free Market Institute at Texas Tech University, and former President of the Association of Private Enterprise Education;Ph.D. in economics from George Mason Univ) 5 Oct 2006 Trade Deficit Is Really A Capital Surplus <http://www.independent.org/newsroom/article.asp?id=1832> (accessed 12 July 2022)

A trade deficit reflects the fact that we buy more goods and services from abroad than we sell to foreigners. Foreigners take the earnings they receive from our spending (minus the goods and services they buy from us) and invest that sum in the U.S. The U.S. has a wealth of investment opportunities, but we have a low rate of domestic saving, so lots of investments in the U.S. wouldn’t get funded if foreigners weren’t willing to supply us with their savings. As long as our country remains a good place to invest and we have a low saving rate, foreigners are going to invest in the U.S. more on net than we invest overseas. That will generate a capital account surplus and the resulting trade deficit. This is a good thing.

NO BAD ECONOMIC IMPACT

Trade deficits prove nothing about economic growth: Economies are too complex to draw a connection

Dr. Walter Williams 2007 (PhD; professor of economics, George Mason Univ.) Trade Deficits: Good or Bad? 17 Jan 2007 <http://townhall.com/columnists/walterewilliams/2007/01/17/trade_deficits_good_or_bad/page/full> (accessed 12 July 2022)

According to data he found at the National Bureau of Economic Research's "[Macrohistory Database](http://www.nber.org/databases/macrohistory/contents/index.html)", it turns out that the U.S. ran a trade surplus in nine of the 10 years of the Great Depression, with 1936 being the lone exception. During those 10 years, we had a significant trade surplus, with exports totaling $26.05 billion and imports totaling only $21.13 billion. So what do trade surpluses during a depression and trade deficits during an economic boom prove, considering we've had trade deficits for most of our history? Professor Boudreaux says they prove absolutely nothing. Economies are far too complex to draw simplistic causal connections between trade deficits and surpluses and economic welfare and growth.

Trade deficits are not “unsustainable” – we could run a trade deficit indefinitely. Foreigners would just keep investing the excess in the US

Dr. Robert Murphy 2007 (PhD economics;  Associated Scholar with the Mises Institute and a researcher at the Free Market Institute at Texas Tech Univ) “Isn’t the Capital Surplus a Good Thing?” 22 Jan 2007 <https://mises.org/library/isnt-capital-surplus-good-thing> (accessed 12 July 2022)

But back to the main point: Is it really helpful to view the annual trade deficits as a necessary sign of growing indebtedness? In the common parlance, are these massive deficits unsustainable? Generally speaking, the answer is no. That is, a country could experience trade deficits indefinitely. So long as foreigners wanted to invest more in the country than its people wanted to invest abroad, the trade balance would remain negative.

TRADE DEFICIT

Trade deficit has no relation to US unemployment historically

Stephen J. Rose 2018 (Stephen Rose is a nonresident fellow in the Income and Benefits Policy Center at the Urban Institute. He is a nationally recognized labor economist and has spent the past 35 years researching and writing about the interactions between formal education, training, career movements, incomes, and earnings.) April 2018 “Is Foreign Trade the Cause of Manufacturing Job Loses” <https://www.urban.org/sites/default/files/publication/97781/is_foreign_trade_the_cause_of_manufacturing_job_losses_2.pdf>  (accessed 27 June 2022)

If trade deficits hurt American workers, a rising trade deficit should lead to increasing unemployment, while a falling trade deficit should be associated with declining unemployment. However, there is not much of a relationship between unemployment and trade deficits (figure 2). In fact, when trade deficits are higher, unemployment tends to be lower. In the 1960s, our trade surplus was declining, and instead of rising, our unemployment rate was falling. In the mid-1980s, the trade deficit grew while unemployment was high. But from 1987 to 2002, our trade deficit grew while our unemployment rate fell. From 2006 to 2009, the trade deficit fell, and our unemployment rate rose. So only one of these periods supports the trade critics’ position that rising deficits lead to rising unemployment and that falling deficits lead to falling unemployment.

Imports aren’t a problem: They keep prices low and allow companies to remain competitive in domestic and foreign markets

Office of the United States Trade Representative. Accessed June 2022. (The Office of the United States Trade Representative (USTR) is an agency of the [United States federal government](https://en.wikipedia.org/wiki/Federal_government_of_the_United_States) responsible for developing and promoting [American trade policy](https://en.wikipedia.org/wiki/Trade_policy_of_the_United_States). Part of the Executive Office of the President, it is headed by the U.S. Trade Representative, a [Cabinet-level position](https://en.wikipedia.org/wiki/Cabinet_of_the_United_States) that serves as the [U.S. President](https://en.wikipedia.org/wiki/U.S._President)'s primary advisor, negotiator, and spokesperson on trade matters) “Economy & Trade.” No publication date. <https://ustr.gov/issue-areas/economy-trade> (Accessed online 27 June 2022)

Such gains arise in a number of ways. Expanding the production of America's most competitive industries and products, through exports, raises U.S. incomes. Shifting production to the most competitive areas of our economy helps raise the productivity of the average American worker and through that the income they earn. With the ability to serve a global market, investment is encouraged in our expanding export sectors and the rising scale of output helps lower average production costs. Such effects help strengthen America’s economic growth rate. Moreover, imports increase consumer choice, and help keep prices low raising the purchasing power for consumers. Imports also provide high quality inputs for American businesses helping companies and their U.S. employees become or remain highly competitive in both domestic and foreign markets.

No relation to trade deficit and unemployment

Congressional Research Service, 2018. (The Congressional Research Service is a public policy research institute of the United States Congress. Operating within the Library of Congress, it works primarily and directly for members of Congress and their committees and staff on a confidential, nonpartisan basis) “The Economic Effects of Trade: Overview and Policy Challenges.” 20 April, 2018 <https://crsreports.congress.gov/product/pdf/r/r44546> (Accessed 27 June 2022)

Although some observers argue that international trade, and trade deficits in particular, tend to reduce the number of jobs and increase the unemployment rate for the economy as a whole, the data and economic theory offer a mixed assessment. As noted above, international competition may be one among a number of factors that affect the overall composition of employment in the economy and may result in job gains and losses. In general, the unemployment rate and the trade deficit are not directly related. Recent data indicate that high unemployment rates have occurred during periods when there were smaller deficits in the merchandise trade accounts as a result of the overall composition of the economy. For instance, in 2006, the U.S. unemployment rate had fallen to about 4.0%, with the economy growing at an annual rate of 2.7%. At the same time, the economy experienced a merchandise trade deficit of over $800 billion, as indicated in Figure 7. In 2009, however, the rate of economic growth had fallen to a negative 3.0% and the rate of unemployment had risen to 9.9%, but the trade deficit had fallen to $510 billion. Since 2010, the rate of unemployment has fallen by more than half from about 10% to 4.1%, while the merchandise trade deficit has averaged around $750 billion.

Predictions of trade deficits leading to negative economic consequences have been wrong

Stephen J. Rose 2021 (non-resident adjunct fellow with the Scholl Chair in International Business at the Center for Strategic and International Studies in Washington, D.C.) 4 Oct 2021 "Do Not Blame Trade for the Decline in Manufacturing Jobs” <https://www.csis.org/analysis/do-not-blame-trade-decline-manufacturing-jobs>  (accessed 27 June 2022)

Third, the notion that the United States can continue to run trade deficits is incomprehensible for many people. In 1988, Harvard finance professor Benjamin Friedman in his book *Day of Reckoning* wrote that the United States would have serious negative economic consequences because it had five years of trade deficits that averaged a bit less than 2 percent of GDP. He argued that the United States would have to pay off the principle and the interest in the 1990s, which would lead to a negative capital balance. This would require the value of the dollar to decline so that exports would increase, and imports would decrease to maintain the United States’ balance of all payments. None of these things happened. Instead of negative consequences, U.S. GDP growth in the 1990s was higher than GDP growth in the 1970s, 1980s, and 2000s. Furthermore, between 1994 and 2019, the trade deficit was never less than 2 percent of GDP.

Trade deficit not affected by price of oil because of macroeconomic forces

Congressional Research Service, 2018. (public policy research institute of the United States Congress. Operating within the Library of Congress, it works primarily and directly for members of Congress and their committees and staff on a confidential, nonpartisan basis) “The Economic Effects of Trade: Overview and Policy Challenges.” 20 April, 2018 <https://crsreports.congress.gov/product/pdf/r/r44546> (Accessed 27 June 2022)

Recent changes in the price of oil and its impact on the U.S. trade deficit demonstrate the macroeconomic origins of the trade deficit. Given the prominent role that energy imports play in the U.S. trade deficit, the U.S. trade deficit might be expected to decline along with the drop in the price of oil, but that has not been the case. **[END QUOTE]** From 2014 to 2015, the average price of an imported barrel of crude oil fell by nearly half from an average annual price of $91 per barrel to an average annual price of $47 per barrel, although the price of imported crude oil fell below $40 per barrel by the end of 2015. At the same time that the average price in imported crude oil dropped sharply, the quantity of imported crude oil fell by 1.4%. As a result of this drop in crude oil prices and relatively stable quantity of imports, crude oil imports fell from accounting for more than 40% on average of the annual U.S. merchandise trade deficit in 2012 to about 10% on average of the annual U.S. trade deficit in 2015.83 [**THEY CONTINUE LATER IN THE CONTEXT QUOTE**:] Despite the drop in the average annual price of imported crude oil and the decline in the role of imported crude oil in the value of the U.S. trade deficit, the U.S. merchandise deficit increased in 2015 over that recorded in 2014, as indicated in Figure 9. Instead of seeing the overall trade deficit decline, the composition of the trade deficit changed, with non-petroleum products replacing petroleum products, seemingly affirming the proposition that the overall value of the trade deficit is determined by macroeconomic forces.

Half the trade deficit is simply goods being moved around within the same company

Marc Chandler 2009 (professor at the [New York University School of Continuing and Professional Studies](https://en.wikipedia.org/wiki/New_York_University_School_of_Continuing_and_Professional_Studies); head of global currency strategy at Brown Brothers Harriman) MAKING SENSE OF THE DOLLAR <https://books.google.fr/books?id=qn4RApRLZSoC&pg=PT48&lpg=PT48&dq=confusing+%22trade+deficit%22+%22budget+deficit%22&source=bl&ots=zKpxvVRuN7&sig=fkCxRs5puc93D4xEL02wdh2SxWM&hl=en&sa=X&ved=0CEQQ6AEwBmoVChMIocfakcbRyAIVxQMaCh1E5AII#v=onepage&q=confusing%20%22trade%20deficit%22%20%22budget%20deficit%22&f=false> (accessed 12 July 2022)



NO JOBS IMPACT

Trade deficit doesn’t kill manufacturing jobs: It’s technology. We manufacture more stuff with fewer workers

Marc Chandler 2009 (professor at the [New York University School of Continuing and Professional Studies](https://en.wikipedia.org/wiki/New_York_University_School_of_Continuing_and_Professional_Studies); head of global currency strategy at Brown Brothers Harriman) MAKING SENSE OF THE DOLLAR <https://books.google.fr/books?id=qn4RApRLZSoC&pg=PT48&lpg=PT48&dq=confusing+%22trade+deficit%22+%22budget+deficit%22&source=bl&ots=zKpxvVRuN7&sig=fkCxRs5puc93D4xEL02wdh2SxWM&hl=en&sa=X&ved=0CEQQ6AEwBmoVChMIocfakcbRyAIVxQMaCh1E5AII#v=onepage&q=confusing%20%22trade%20deficit%22%20%22budget%20deficit%22&f=false> (accessed 12 July 2022)



All the trade deficit dollars come back to the US as investments, resulting in zero net loss of jobs

Dr. Joseph T. Salerno 2014 (PhD; academic vice president of the Mises Institute, professor of economics at Pace University ) The Neo-Mercantilist Hysteria Over US Trade Deficits 17 July 2014 <https://mises.org/library/neo-mercantilist-hysteria-over-us-trade-deficits> (accessed 12 July 2022)

However, the dollars that are invested by foreigners in US stocks, bonds, and financial intermediaries like banks and mutual funds are ultimately lent to or invested in US business firms. These firms then “spend” these dollars on paying wages and buying real capital goods like raw materials, plants and equipment, and software. But what about foreign purchases of real assets like golf courses or hotels that already exist? All other things equal, including domestic “time” or saving preferences, these purchases provide the funds for the US sellers of these assets to invest in starting new projects and enterprises that they forecast to be more profitable and which involves spending on wages and new capital goods. In short, the so-called trade deficit is exactly equal in dollar terms to net foreign investment in US-based business firms (plus net investment income received by US residents from their foreign asset holdings). The flow of spending in the US economy is not diminished one cent by a negative trade balance but merely re-routed. Accordingly, the “real” effect on the US economy of a trade deficit is a redirection of labor and capital out of its export industries into industries producing consumer and capital goods for domestic use, with no net loss of jobs.

NOT RELATED TO FEDERAL BUDGET DEFICIT

No link between trade deficit and federal budget deficit, and no link to economic harm either

Marc Chandler 2009 (professor at the [New York University School of Continuing and Professional Studies](https://en.wikipedia.org/wiki/New_York_University_School_of_Continuing_and_Professional_Studies); head of global currency strategy at Brown Brothers Harriman) MAKING SENSE OF THE DOLLAR <https://books.google.fr/books?id=qn4RApRLZSoC&pg=PT48&lpg=PT48&dq=confusing+%22trade+deficit%22+%22budget+deficit%22&source=bl&ots=zKpxvVRuN7&sig=fkCxRs5puc93D4xEL02wdh2SxWM&hl=en&sa=X&ved=0CEQQ6AEwBmoVChMIocfakcbRyAIVxQMaCh1E5AII#v=onepage&q=confusing%20%22trade%20deficit%22%20%22budget%20deficit%22&f=false> (accessed 12 July 2022)



Budget deficit is its own problem. Trade deficit may be a symptom, but it isn’t the real problem

Dr. [Benjamin Powell](http://www.independent.org/aboutus/person_detail.asp?id=1023) 2006 (Senior Fellow at the Independent Institute, Director of the Free Market Institute at Texas Tech University, and former President of the Association of Private Enterprise Education; Ph.D. in economics from George Mason Univ) 5 Oct 2006 Trade Deficit Is Really A Capital Surplus <http://www.independent.org/newsroom/article.asp?id=1832> (accessed 12 July 2022)

After governments issue too much debt, they often harm their economy by inflating the money supply or raising tax rates to try to pay their debts. However, these problems stem from the budget deficit and the accumulated debt—not who finances the debt. In this way, a trade deficit can be a symptom of fiscal problems, but the trade deficit isn’t the problem per se. It’s the budget deficit that’s the problem.

MASKING DISADVANTAGE

We should forget the trade deficit and focus on the federal budget deficit: That’s the real cause of our problems

Dr. Joseph T. Salerno 2014 (PhD; academic vice president of the Mises Institute, professor of economics at Pace University ) The Neo-Mercantilist Hysteria Over US Trade Deficits 17 July 2014 <https://mises.org/library/neo-mercantilist-hysteria-over-us-trade-deficits> (accessed 12 July 2022)

The real problem is not the trade deficit and the corresponding inflow of foreign capital to the US. In fact this would enhance labor productivity and living standards in the US if these funds were invested in the production of additional capital goods and the creation of new enterprises. The problem is the Federal budget deficit which diverts foreign — as well as domestic — capital flows from productive investment in the US economy to politicians who use these funds to finance wars, corporate welfare programs, crony capitalist bank bailouts, and the expansion of wasteful and destructive government agencies. This deficit suppresses current US living standards and leaves future taxpayers to foot the bill.