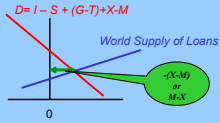


# What Causes the Trade Balance



# The Demand for Loans

We had a negative balance on current

Of course there was a statistical discrepancy of 45 billion so maybe our demand for loans was 525 billion

Net	\$64,834
Balance	\$418,038
Receipts on US Assets Abroad	\$255,543
Payments on Foreign Assets in US	(\$259,513)
Net Investment Income	(\$3,970)
Unilateral Transfers Net	(\$55,583)
Balance on Current Account	(\$480,861)
Net Capital Outflow	(178,985)
Net Foreign Inflow	\$706,983
Statistical Discrepancy	(\$45,852)

# The Demand for Loans

Goods	Amount
Exports	\$681,874
Imports	(\$1,164,746)
Net Trade Balance	(\$482,872)
Services	
Net Military Transactions	\$7,307

What is causing the trade balance?

Is it a bad thing?

Unilateral Transfers Net	(\$55,583)
Balance on Current Account	(\$480,861)
Net Capital Outflow	(178,985)
Net Foreign Inflow	\$706,983
Statistical Discrepancy	(\$45,852)

# The Algebra

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

$$Y + M = C + I + G + X$$

What we have

What we can do

# The Algebra

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

$$Y = C + S + T$$

# The Algebra

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

$$Y = C + S + T$$

$$S = I + (G - T) + (X - M)$$

### The Final Equation

$$S = I + (G - T) + (X - M)$$

The Government Surplus or Deficit

The Balance on Current Account

### The Final Equation

~~$$S = I + (G - T) + (X - M)$$~~

~~The Government Surplus or Deficit~~

The Balance on Current Account

### The Final Equation

$$S - I = (X - M)$$

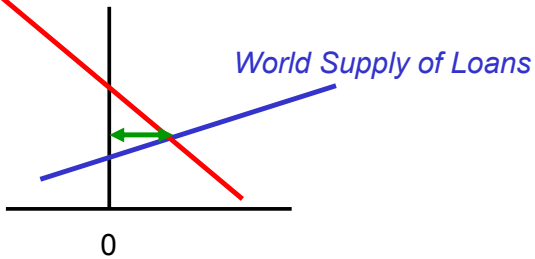
### The Final Equation

$$S - I = (X - M)$$

In sum, the trade balance and foreign investment go hand in hand.

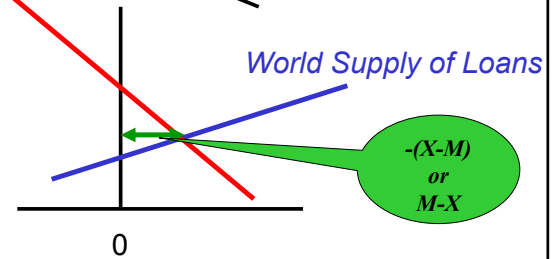
### Our Graph

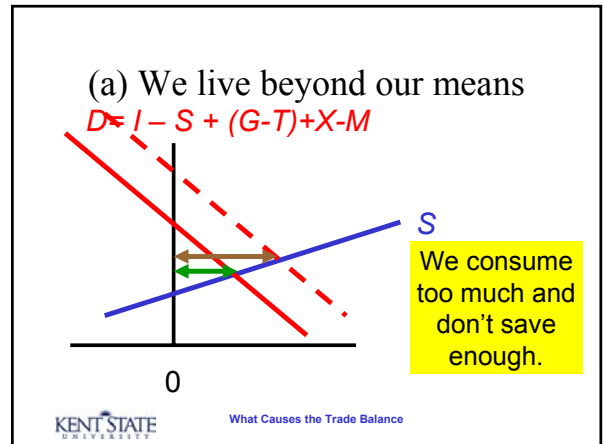
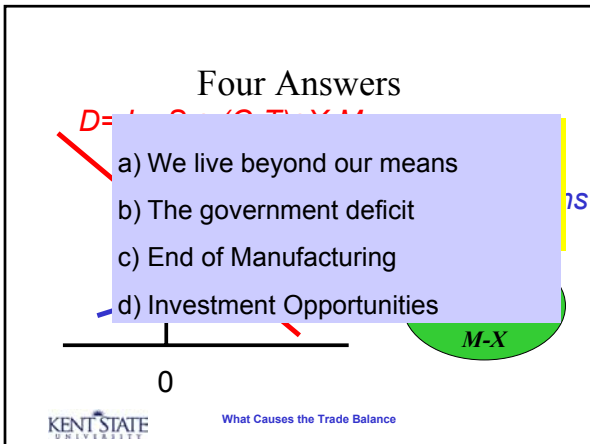
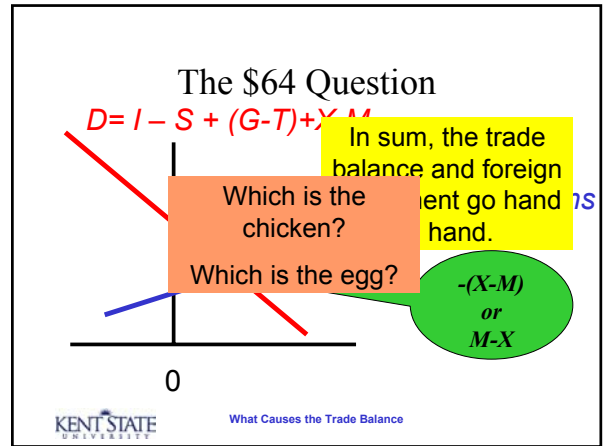
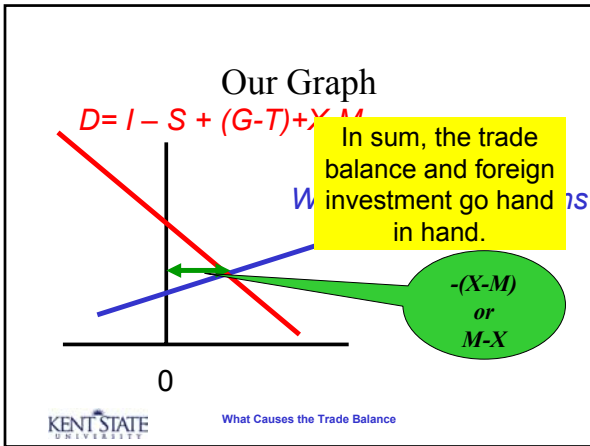
$$D = I - S + (G - T) + X - M$$



### Our Graph

~~$$D = I - S + (G - T) + X - M$$~~





### Just whose means are we living beyond?

- Doubtless the saving rate is low.
  - Stock markets
  - Housing

0

KENT STATE UNIVERSITY What Causes the Trade Balance

### Just whose means are we living beyond?

- Doubtless the saving rate is low.
  - Stock markets
  - Housing
- Besides, just because A is profligate is no reason for B to be concerned

0

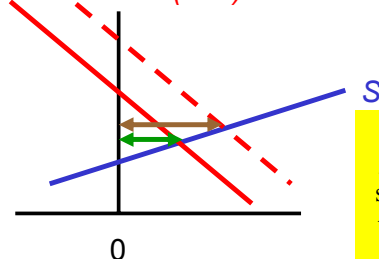
KENT STATE UNIVERSITY What Causes the Trade Balance

## Just whose means are we living beyond?

- Doubtless the saving rate is low.
  - Stock markets
  - Housing
- Besides, just because A is profligate is no reason for B to be concerned
- And who is lending to the profligate?

## (b) We run an enormous deficit

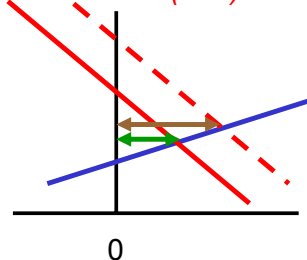
$$D \approx I - S + (G - T) + X - M$$



The government spends more than it takes in.

## (b) We run an enormous deficit

$$D \approx I - S + (G - T) + X - M$$

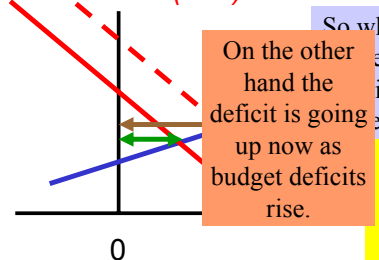


So why didn't the trade deficit decline in the 1990's?

The government spends more than it takes in.

## (b) We run an enormous deficit

$$D \approx I - S + (G - T) + X - M$$



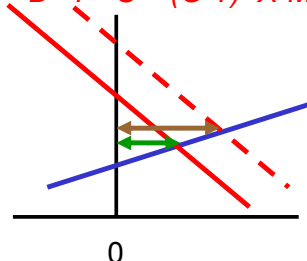
On the other hand the deficit is going up now as budget deficits rise.

So why didn't the trade deficit decline in the 1990's?

The government spends more than it takes in.

## (c) No Jobs

$$D \approx I - S + (G - T) + X - M$$



No saving because we are wiping out our manufacturing base and eliminating chances to work and earn.

## The Manufacturing Base

- Most manufacturing is moving offshore.

## The Manufacturing Base

- Most manufacturing is moving offshore.
- No comparative advantage

## The Manufacturing Base

- Most manufacturing is moving offshore.
- No comparative advantage
- Look at Textiles
  - First in New England (Lowell Girls)
  - Then to the South
  - Then Offshore

## The Manufacturing Base

- Most manufacturing is moving offshore.

People are sending us goods without expectation of being able to buy things from us?

- Then to the South
- Then Offshore

## The Manufacturing Base

- Most manufacturing is moving offshore.

People are sending us goods without expectation of being able to buy things

If you believe that one, come work for me.

- Then to the South
- Then Offshore

## The Manufacturing Base

- Most manufacturing is moving offshore.

People expect us t-shirts they expect to use the money to purchase CD's. At some time.

- Then to the South
- Then Offshore

## Where are we?

- ~~a) We live beyond our means~~
- ~~b) The government deficit~~
- ~~c) End of Manufacturing~~
- d) Investment Opportunities

End

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