

# Trade Gap

First of a three-part series exploring our nation's trade deficit, budget deficit, national debt and how we compare with the rest of the world

Federal trade deficit, in billions of dollars



The trade deficit has reached tremendous levels, but is that as bad as it seems?

The impressive bands of red ink spilling down your page are the result of the explosive growth in U.S. imports over the last 30 years. Though the country is exporting more of its own goods than ever before, imports have grown even faster, and the gap between imports and exports last year created a trade deficit of \$817 billion.

To some economists, this is evidence of a spendthrift nation living beyond its means. To others, it represents a structural change in the global economy where traditional ways of accounting for national income no longer apply.

The American appetite for oil, cars, consumer electronics and other goods from abroad has led to trade deficits since 1975. These deficits alarm many here who feel the United States has lost its manufacturing base to nations such as China, Japan, Canada, Mexico and Germany. Today it would be nearly impossible for the United States to replace these imports with domestic goods. We

simply couldn't make enough. U.S. factories are running at close to capacity, and U.S. unemployment is remarkably low. Imports are filling the gap between domestic capacity and demand, and U.S. manufacturers are unwilling to build more factories at home while goods can be made more cheaply abroad.

One school of economic thought holds that the difference between our domestic production and demand is pumped up by federal budget deficits. The simplest way to move in the right direction on the trade deficit, this theory holds, is to bring federal spending in line with revenue. The red ink on federal spending totaled \$248.2 billion in 2006.

To pay for all this importing and federal overspending, the United States borrows money from the rest of the world. Other countries are happy to lend as long as they're profiting at our expense. Meanwhile, the U.S. national debt has ballooned to more than \$9 trillion.

*Jim Landers*

#### ABOUT THE SERIES

#### TRADE DEFICIT

The difference between what U.S. companies exported and what companies imported into the U.S.

#### BUDGET DEFICIT (next week)

The amount federal government spending exceeds the revenue it takes in each year.

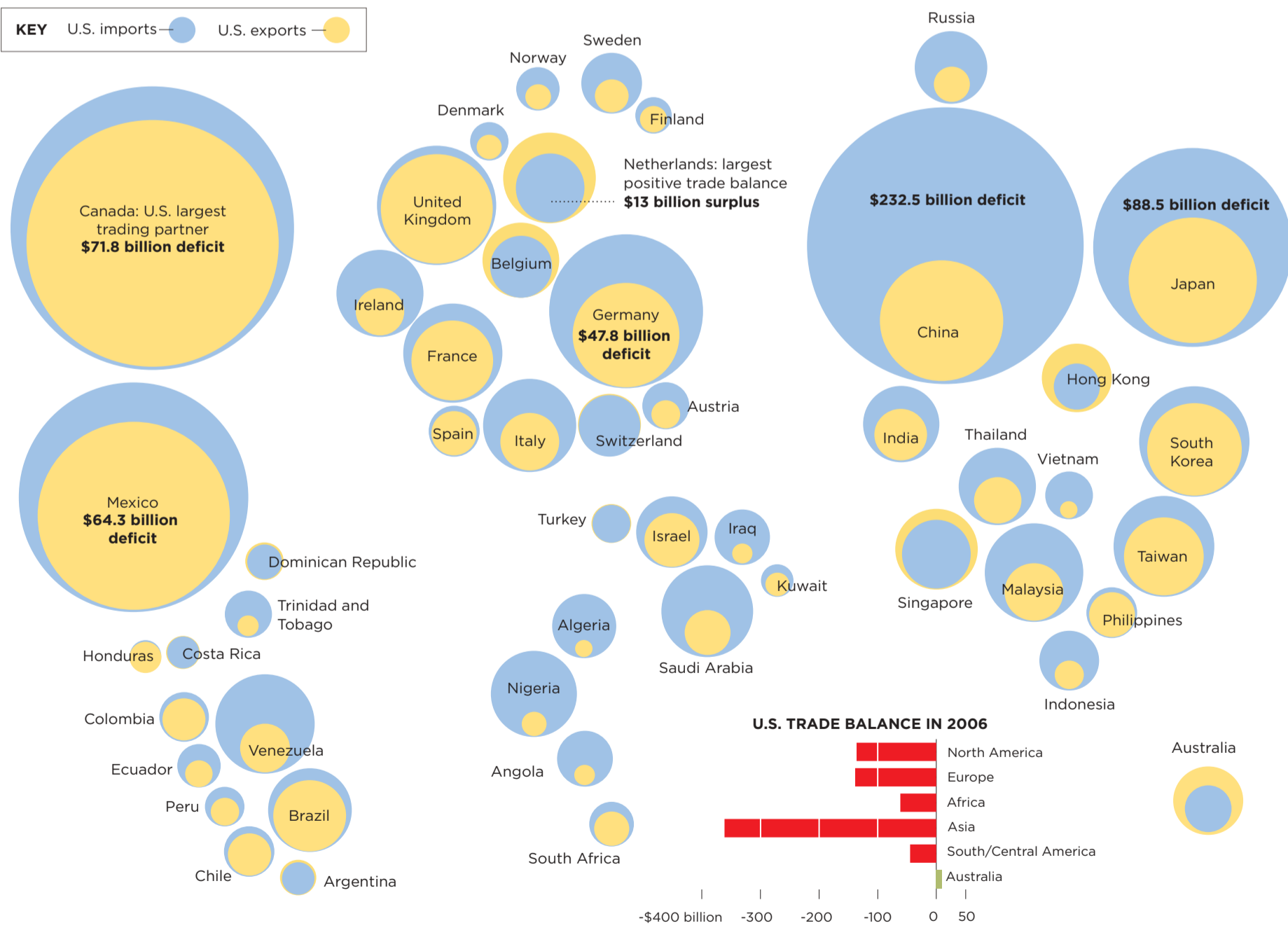
#### NATIONAL DEBT (in two weeks)

The cumulative amount of these budget deficits over the years.

2006	Unemployment rate	Exports	GDP (purchasing power parity)	Population (as of July)
<b>UNITED STATES</b>	4.8%	\$1 trillion	\$13 trillion (1st in the world)	301 million
<b>REST OF THE WORLD</b>	30%	\$11 trillion	\$54 trillion	6.6 billion

## DIFFERENCE BETWEEN IMPORTS AND EXPORTS WITH TOP 50 U.S. TRADING PARTNERS

U.S. is in deficit when the blue circle is larger than the yellow. 2006 numbers.



## CURRENT ACCOUNT BALANCE

The difference between money flowing into a country and money flowing out. This takes into account payments for goods and services, foreign aid and such things as the dividends companies in one country pay citizens in another. In billions:

TOP FIVE	BOTTOM FIVE
1. China ..... \$179.1	158. France ..... - \$38.0
2. Japan ..... \$174.4	159. Australia ..... - \$41.6
3. Germany ..... \$134.8	160. United Kingdom ..... - \$57.7
4. Russia ..... \$105.3	161. Spain ..... - \$98.6
5. Saudi Arabia ..... \$103.8	162. <b>United States</b> ..... - \$862.3

\*List includes countries for which data was available.

## TOP U.S. IMPORTS AND EXPORTS

In billions of dollars (2006):

TOP 5 U.S. IMPORTS	TOP 5 U.S. EXPORTS
1. Crude oil ..... \$225.2	1. Vehicles ..... \$83.5
2. Vehicles ..... \$211.9	2. Electrical machinery ..... \$83.2
3. TVs, VCRs, etc. .... \$115.3	3. Airplanes/airplane parts ..... \$64.4
4. Electrical machinery ..... \$109.7	4. General industrial machines ..... \$44.1
5. Data processing equipment and office supplies ..... \$106.4	5. Power generating machines ..... \$44.0

-\$817 billion (2006)