THE U.S. EXTERNAL PAYMENTS POSITION:N-PROPOSITIONS

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1. There was a major climacteric in international payments around 1980, the previous counterpart was about 1915. Before 1915, there was an excess supply of U.S. securities; this shift was to an excess supply of non-U.S. securities. The shift in the early 1980s was to an excess supply of U.S. securities. The identity of the excess supply has no implication for the shock that led to the change in the pattern of payments.
2. U.S. manufacturing employment has declined from 19 million in 1979 to 11 million in 2016. The United States would have incurred job losses in manufacturing even if the U.S. trade balance had remained unchanged, since productivity or value added per employee in U.S. export industries is significantly higher than in U.S. import-competing industries. Part of the decline is due to reclassification, the cafeteria workers in various GM plants have been shifted to the services sector. One approach to estimating the job losses in U.S manufacturing that can be attributed to the U.S. trade deficit follows. (Note the mismatch, when I say “trade deficit”, I mean “current account deficit.”) Manufacturing sector U.S. GDP is twenty percent of U.S. GDP, assume $4,000 billion. Given 11 million workers in U.S. manufacturing, then value added per worker in manufacturing is $367,000. (This number is very high relative to wages per employee.) If the U.S. trade deficit is four percent of the U.S. GDP, or $800 billion, the result is a 2,180 thousand job decline. This approach can be modified in terms of industry by industry, and the margin rather than the average.

“Those jobs” won’t come back to Indianapolis, but hundreds of thousands of jobs would be created in U.S. manufacturing if the U.S. trade deficit declined significantly.

1. The U.S. job losses in manufacturing have resulted from global savings imbalances. One group (the “crowding out” camp) believes that the U.S. demand for saving has exceeded the domestic supply, and that the U.S. borrowers have “crowded out” foreign borrowers. Many adherents to this view believe the large U.S. fiscal deficit has led to large savings inflow. The competing group (the “crowding in” camp) suggests that there is large excess saving in ten or fifteen countries, and that some of these savings crowd into the U.S. market. (At an AEI seminar in mid-September I offered a free lunch to any one on the panel or among the attendees that could identify a country that had increased its saving rate or allocated more savings to the United States to facilitate financing the U.S. savings shortfall--there were no takers.) The United States has had a cumulative trade deficit of $14,000 billion since 1980; sovereign wealth funds have acquired $8,000 billion of foreign securities. Foreign central banks have added $5,000 billion to their reserves. (Again, a mismatch, since these foreign groups also have acquired non-dollar securities.)
2. A significant part of the U.S. fiscal deficit can be attributed to the U.S. trade deficit. Remember that quip from the early 1990s, “How would the U.S. Treasury finance its fiscal deficit if the Bank of Japan stopped buying U.S. dollar securities?” If the BOJ stopped buying these securities, the price of the U.S. dollar would be lower, the United States would then have a smaller trade deficit. Employment and income in the tradable goods sector would be higher. The tax base would be higher. The fiscal deficit would be smaller.
3. The U.S. trade deficit has developed because of systemic issue, there is no low cost mechanism for moving to sustainable imbalances. One policy approach would be institutional innovation that would enable the high savings countries to achieve their goals without imposing excess adjustment costs on the United States and their other trading partners. An alternative policy approach is to increase the costs that foreign investors incur on their purchase of U.S. assets. (The oil exporting countries tax Americans by limiting production, and then they obtain the benefits of dollar securities at a cost to Americans.)
4. The current international financial arrangement imposes exceptional adjustment costs on the United States. The U.S. housing market bubble resulted from a surge in the foreign demand for U.S. dollar securities.
5. Market forces might “solve the problem” in the long run, although in the short the excess foreign saving seems more likely to become larger rather than smaller.