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Comment on the Commentary of the Day

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8 October 2011

Mr. Robert Samuelson, Columnist
The Washington Post
Washington, DC

Dear Mr. Samuelson:

You argue that we Americans are harmed by foreign subsidies that lower the prices of our imports ("Our one-sided trade war with China," Oct. 8). But why? Why are we harmed by these lower-priced imports if (as I know you agree) we benefit from imports whose prices are lowered by natural market forces?

In both cases, some U.S. workers lose jobs. And in both cases, not only does Americans' cost of living fall, but, also, opportunities are thereby opened in America for the creation of new industries and new opportunities that would otherwise be economically out of reach. Absolutely nothing about jobs lost to imports whose prices are made lower by foreign subsidies distinguishes them from jobs lost to imports whose prices are made lower by natural market forces.

If you're skeptical of my claim, ask first: Would you oppose the successful private efforts of a Chinese physician to invent an inexpensive pill that safely and completely cures people of cancer? I'm sure not, despite the fact that such a pill would destroy many American jobs - from those of physicians to hospital orderlies. Now ask, would you oppose the successful efforts of the Chinese government to subsidize the invention and production of such a pill for export to America?

The logic of your position is that such subsidies would hurt Americans and, therefore, Uncle Sam should retaliate with measures to protect us from the scourge of such a low-priced cancer-curing pill.

But honestly, would Americans really be made better off by retaliatory tariffs that prevent us from buying this pill - or that forces up the price of this pill to levels sufficient to protect the jobs of oncology physicians, nurses, and other health-care workers? If you (rightly) suspect that the answer is no, then you should realize that your case for retaliatory trade restrictions against whatever goods Beijing might now subsidize for export is without merit.

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5 October 2011

Prof. Peter Morici
Professor of Economics
University of Maryland

Dear Peter:

According to your essay today at FoxNews.com, "Jobs creation remains weak, because the U.S. economy suffers from inadequate demand for what Americans can make" ("Our Economy Is Teetering On the Brink of Recession"). Without here questioning the correctness of your mercantilist/Keynesian theory that employment is chiefly and straightforwardly a function of the intensity of aggregate demand, I DO question your identifying America's trade deficit as one of the alleged causes of inadequate aggregate demand in the U.S.

You write that the trade deficit "is a tax on domestic demand that erases the benefits of tax cuts and stimulus spending.... Simply, dollars sent abroad to purchase oil and consumer goods from China, that do not return to purchase U.S. exports, are lost purchasing power and cannot be spent on U.S. made goods and service."

This claim is simply wrong.

As former Chief Economist at the U.S. International Trade Commission, you must know that another name for a trade (or, more accurately, a "current-account") deficit is "capital-account surplus." Except for the tiny number of dollars that foreigners literally hoard, dollars in America's capital-account surplus (aka "trade deficit") return to America as demand for assets - that is, as investment demand in America.

Therefore, the dollars so invested - to create, or purchase equity in, U.S.-based firms; to lend money to the government and private parties; to buy real estate in America - do not disappear from the U.S. economy. They return to the U.S. no less certainly than do dollars spent buying U.S. exports. The only difference is that dollars that return as export demand are recorded on the current-account while dollars that return as investment demand are recorded on the capital-account.

You seem to be misled by this mere accounting convention into supposing that dollars that foreigners invest in the U.S., rather than spend on American exports, are somehow castrated of their capacity to serve as demand for American-made outputs. But in fact these invested dollars are not only often used by foreigners to directly demand goods and services in America (as when, say, Ikea spends dollars building stores in New Jersey), but are spent on outputs also by Americans who receive them as loans or in exchange for assets sold to foreigners.