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Trade Gap Hits Record For 4th Year In a Row

By Paul Blustein
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The U.S. trade deficit soared to a record in 2005 for the fourth year in a row, according to a government report released yesterday that provided a reminder of the dangers hovering over a generally robust economy.

The United States imported $725.8 billion more in goods and services than it exported last year, the Commerce Department said. That is up 17.5 percent from last year, and it is an all-time high not only in dollar terms but as a proportion of the economy; the figure is equal to 5.8 percent of gross domestic product.

For December alone, the trade gap increased to $65.7 billion from a revised $64.7 billion in November. That is the third-highest monthly deficit ever.

In a file photo cranes loom in the background as Chrysler automobiles, which were assembled at a Dailmer-Chrysler plant in Germany and imported for U.S. distribution, await shipment at the Port of Long Beach in Long Beach, Calif., Wednesday, June 8, 2005. The U.S. trade deficit soared to an all-time high of $725.8 billion in 2005, pushed upward by record imports of oil, food, cars and other consumer goods the Commerce Department reported Friday, Feb. 10, 2006.. (AP Photo/Ric Francis) (Ric Francis - AP)

In some respects, the trade deficit reflects the strength of the U.S. economy, at least relative to other major trading partners.

Because U.S. economic growth has been rapid in recent years, American consumers are snapping up foreign goods of all kinds -- autos, electronics and clothing being some of the biggest categories. At the same time, relatively sluggish growth in economies such as the European Union and Japan has dampened demand for goods made in the United States. Thus even though U.S. exports rose 10.4 percent last year to $1.27 trillion, imports surged 12.9 percent to nearly $2 trillion.

But the gap worries many economists because it means the United States must borrow heavily from overseas. The dollars that Americans spend on imports are often invested by foreigners in the bonds of the U.S. Treasury and mortgage agencies such as Fannie Mae and Freddie Mac, so the more the trade deficit widens and the longer it persists, the greater U.S. indebtedness becomes. That is why some analysts fret about a scenario in which foreigners would sell off U.S. securities en masse, causing interest rates to soar and the global economy to fall into recession.

Nothing of the sort has materialized so far. On the contrary, overseas demand for U.S. investments last year was powerful enough to drive up the dollar against most major currencies.

"It's true that many of us have been concerned that foreigners will grow tired of financing these ever larger trade deficits, and so far there hasn't been much sign of that," said Jeffrey A. Frankel, a Harvard University economist who served on President Bill Clinton's Council of Economic Advisers.

"But there are plenty of reasons to be concerned," Frankel said. "We know [the trade deficit] means we're borrowing against the future, and that our children will have lower standards of living than they would otherwise. And just because a 'hard landing' hasn't happened yet doesn't mean it won't."

Furthermore, Frankel added, a big trade deficit generates pressure for protectionism. The report yesterday prompted many members of Congress and labor groups to step up their calls for a tougher U.S. trade policy and rollbacks in the free-trade deals negotiated in recent years.

"This trade deficit is unsustainable -- we cannot sit back as other nations produce the world's goods and we continue to lose family-supporting, middle class jobs," said Richard L. Trumka, the secretary-treasurer of the AFL-CIO, in a statement calling for Congress to "reject the flawed trade agreements" such as NAFTA and CAFTA.

Critics of the Bush administration's trade policies drew special attention to the mounting U.S. deficit with China, which rose 24.5 percent to $201.6 billion last year, the biggest gap the United States has ever posted with a single country. Lawmakers have been accusing China for some time of playing unfairly in global markets, especially by keeping the value of the Chinese currency, the yuan, at an artificially cheap level.

"Particularly disturbing is the news that our trade deficit with China is two and a half times bigger than it was when we signed a trade agreement with them in 2000," said Sen. Byron Dorgan (D-N.D.) in a statement, referring to the accord allowing Beijing to join the World Trade Organization. "That's pretty compelling evidence something has to change."

Although the gap with China accounts for more than a quarter of the total deficit, the imbalance is spread across a wide variety of trading partners.

The U.S. trade deficit with the European Union was $122.4 billion last year; with Japan, it was $82.7 billion; with Canada, $76.5 billion; with Mexico, $50.1 billion; and with nations belonging to the Organization of Petroleum Exporting Countries, it was $92.7 billion.

The imbalances reinforce the view held by many economists that the widening trade deficit stems primarily from a reduction in U.S. national savings in recent years, including the deterioration in the federal budget deficit.

Because the budget deficit requires the government to borrow, it counts as a decline in national savings.

One important factor fueling the rise in last year's deficit was the rise in the price of imported oil. Imports of petroleum products rose 39 percent, to $251.6 billion.

That was by no means the whole story. Christian E. Weller, senior economist at the Center for American Progress, a Washington think tank, calculated that even if the deficit in petroleum had not increased, the overall gap still would have totaled a record $660 billion.

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