Drinking Liberally | **Liberal Moment #27** | **5/06/08**
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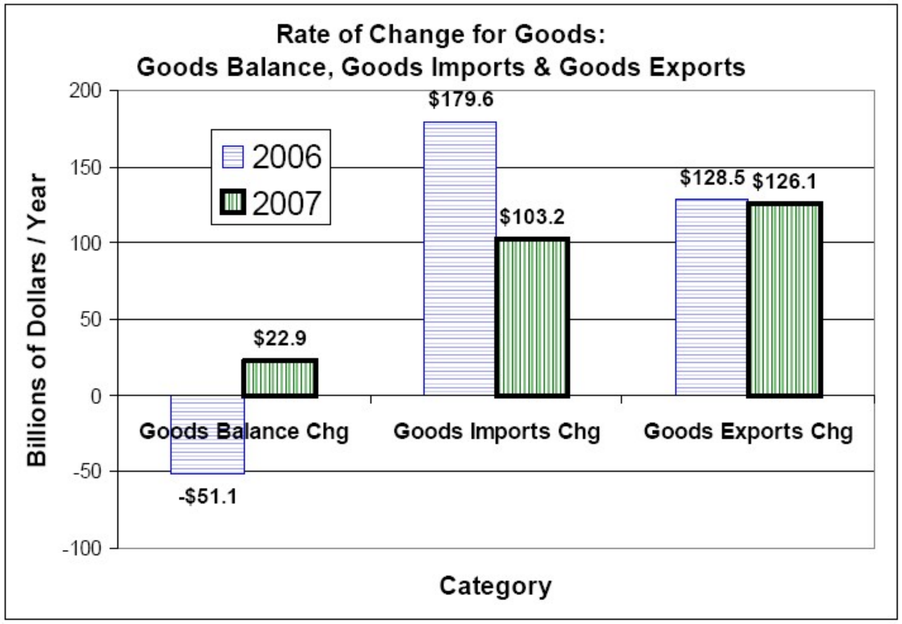
Trade Truth #2: The Dollar & the Deficit

Superficial truth: Yes, the "trade" deficit fell in 2007. Pro "free trade" advocates say that's because a falling dollar increases the competitiveness of U.S. goods and increases exports. They want the dollar to fall even more.

Total Trade 2007: Deficit: $708.5B. Improved by +50B. That is, the total trade balance was *less negative* by $50B. This was true for both goods (+$22.9B) and services (+$27.1B) for a +$50B trade balance improvement.

Total Trade growth in 2007 compared to 2006: Increase of $94.2B/yr
Total Exports growth increased by $20.1B [$20.1B - (-$74.2B)
Total Imports growth decreased by $74.2B = $94.2B]

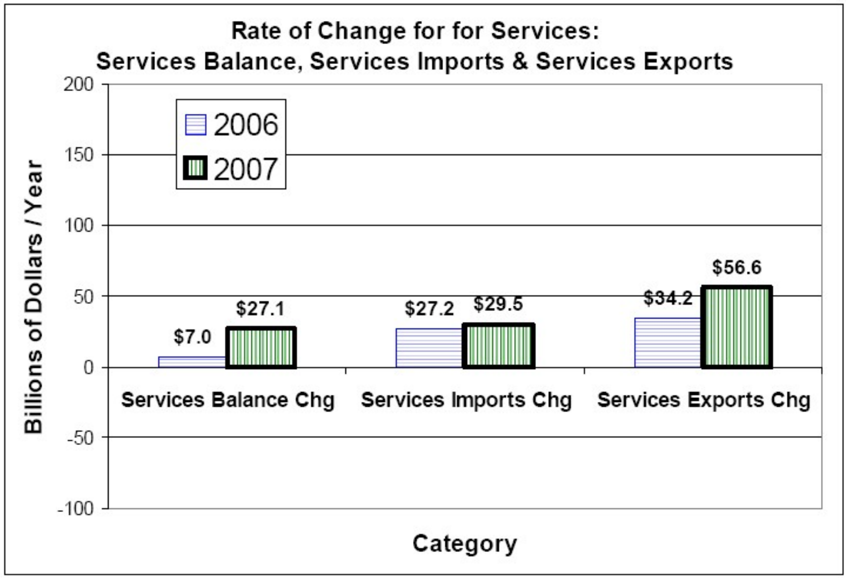
Truth about goods: Goods trade deficit: $815B. But goods export growth didn't increase relative to 2006; goods import growth fell because of a stalling U.S. economy, stagnant wages, and a falling dollar ... we can't afford to buy. This import growth decline is an early sign of economic collapse.



Goods Trade growth in 2007 compared to 2006: increase of $74.0B/yr
Goods Exports growth decreased by $2.4B [-$2.4B - (-$76.4B)
Goods Imports growth decreased by $76.4B = $74.0B]

The U.S. is making less and less, so a falling dollar doesn't help increase goods exports. Without a falling dollar the growth rate of goods exports would likely have fallen even more than it did. Why? **The world doesn't buy more of what we don't produce even when the dollar falls.** Imagine that.

Truth about services: Services trade surplus 2007: $107B. Services balance rose by $27.1B. Export growth in 2007 was greater than import growth in 2006 by $20.1B/yr. **The world buys more of what we produce when the dollar falls.** Imagine that.



Truth about oil: Many blame the trade deficit on oil imports. But the petroleum deficit fell in real dollars by $4.6B in 2006 and $3.9B in 2007 despite rising oil prices. It's been about 20% of the trade deficit for the past six years. There's no "free market" for oil because of OPEC and oligopoly manipulation of supply by restricting refinery capacity.