

International Transactions and the Trade Balance

KOM, Ch 13:

- Why does GNP only include consumption of final goods, not firms' purchases of intermediate inputs? **<a: Because the value of intermediate inputs is already included in the value of final goods they help to produce.>**
- What are "reparation payments," mentioned in the text as an example of unilateral transfers but not explained? **<a: Defined in my Glossary as ""Payment or other compensation provided by a government to a group of people or to another country to compensate for loss or damage that it has caused. Internationally, reparations have been paid after wars by the losers to the winners, most notably by Germany after World War I.>**
- What's the difference between GNP and GDP? **<a: GDP measures the volume of production within a country's borders, regardless of by whom, while GNP records production by the country's "nationals" – that is, its owned factors of production such as labor and capital wherever they are.>**
- Why are imports subtracted from $C+I+G+EX$ in calculating GDP? Is it because imports cause unemployment? **<a: Imports are subtracted because they are included already in C, I, and G. No, imports do not cause unemployment, although they do mean that a portion of other measured spending is not contributing to domestic employment.>**
- The book defines a country's current account surplus as its exports minus its imports. Why is this also said to equal "net foreign investment"? **<a: Because if it exports more than it imports, it has receipts that it does not spend on goods and services, and which it therefore must invest abroad by lending or buying foreign assets.>**
- What distinguishes credits and debits in the balance of payments? **<a: "Any transaction resulting in a receipt from foreigners is entered in the balance of payments as a *credit*. Any transaction resulting in a payment to foreigners is entered as a *debit*.">**
- What distinguishes the current account from the financial account? **<a: Primarily the current account includes purchases and sales of goods and services, while the financial account includes purchases and sales of assets. The text, at least here, is not clear about transfers and factor income payments.>**
- Why must credits and debits exactly offset if measured accurately? **<a: Because every transaction has two parts, for the two transactors.>**
- For which categories of transactions did credits exceed debits for the United States in 2019 (the year reported in KOM)?
 - Trade in goods **<a: No.>**
 - Trade in services **<a: Yes.>**
 - Investment (i.e., "primary income") **<a: Yes.>**
 - Transfer payments (i.e., "secondary income") **<a: No.>**

- Changes in asset holdings **<a: Yes.>**
- What are, and what are not, the implications of a trade deficit?
 - Jobs? **<a: No.>**
 - Debt? **<a: Yes.>**
 - Trade barriers at home and/or abroad? **<a: No.>**
 - Competitiveness or lack thereof? **<a: No.>**

Berg, Elliot, "A Look at the U.S. International Transactions, First Quarter of 2024," *Survey of Current Business*, Bureau of Economic Analysis, July 10, 2024.

- What mostly happened to current account transactions in the first quarter of 2024 compared to the 4th of 2023? **<a: Exports and imports of goods both rose, with imports rising much more. Services exports and imports both rose, with exports rising a bit more. Primary income flows both rose, with receipts rising somewhat more than payments. Secondary income flows fell in both directions, but both were small.>**
- What happened to the financial transactions? **<a: Financial outflows rose, while financial inflows fell.>**

Obstfeld, Maurice, "Targeting specific trade deficits is a game of whack-a-mole," *Financial Times*, April 22, 2018.

- Is a country with a trade deficit losing from trade? **<a: No. That is an "age-old fallacy.">**
- What does a country's overall trade balance reflect? **<a: It is "a macroeconomic phenomenon that mirrors whether it spends less than its income or more.">**
- Why does the author mention what the IMF says? **<a: He is *IMF economic counsellor and director of its research department*.>**
- What determines a country's bilateral deficits and surpluses? **<a: " the international division of labour — based on each country's comparative advantage.">**
- What does he say will happen if the US reduces its imports of aluminum? **<a: It will hurt our aircraft exports.>**
- Why does the fact that the US is at full employment matter for this discussion? **<a: Because it means that if we somehow cause us to produce more of one thing – such as steel or cars – it will cause us to produce less of other things.>**

Krugman, Paul, "Of Dictators and Trade Surpluses," *New York Times*, August 23, 2022.

- What does he say is the source of Russia's trade surplus? **<a: Inability to buy what it needs, due to sanctions.>**
- What does he say is the source of China's trade surplus? **<a: Too little consumption, for several reasons: income doesn't filter down; income used for investment, including unneeded housing, that crashed; and the failed Covid policy.>**

- Why does he say that the surpluses are good for other countries? **<a: They are providing goods that are scarce, and “putting a lid on prices.”>**
- Why are dictators more likely to have these problems? **<a: “nobody can tell the leader when he’s wrong.”>**

Pettis, Michael, “No, trade surpluses aren’t caused by comparative advantage,” *Financial Times*, May 28, 2024.

- According to this, what is needed for trade in accordance with comparative advantage to be beneficial to both countries? **<a: Trade must be balanced.>**
- In his 2-good example, why is Germany able to export both goods? **<a: Because low wages make them cheap, and low wages also make workers unable to buy them.>**
- What, according to him, is the reason for China’s trade surplus? **<a: Low wages and resulting low demand.>**
- Does China say that it wants to keep wages and incomes low? **<a: No officially, as it’s been promising to raise wages for “nearly two decades.”>**

Bradsher, Keith, “China Reaches Record Trade Surplus, Raising Alarm Abroad,” *New York Times*, July 12, 2024.

- Did both exports and imports rise in China, producing this record surplus? **<a: No. Exports rose and imports fell.>**
- Is China exporting more because other countries are reducing their tariffs on China? **<a: No. Many are increasing their tariffs.>**
- What has happened in China to account for this change? **<a: A housing crisis, in which the value of housing has fallen, makes consumers poorer and resultant to spend, so domestic demand for what China produces has fallen. They therefore export instead.>**
- Is it only the US that is concerned about this? **<a: No. Many countries are, and some are experiencing it even more than the US, such as Kenya.>**
- Why do other countries object to this, if they are getting cheap imports from China? **<a: They fear that their own producers will shut down.>**

Optional to Read:

Scott, Robert E. and Zane Mokhiber, “Growing China trade deficit cost 3.7 million American jobs between 2001 and 2018,” Report, Economic Policy Institute, January 30, 2020. [pp. 1-9]

- How do these authors calculate the US job effects of trade? **<a: Jobs needed to produce exports minus jobs that would have been needed to produce imports.>**
- With this method, is there any way that a trade deficit could not be associated with lost jobs? **<a: Only one: if the imports would have used less labor per dollar than the exports.>**

- Why, according to this, did the US deficit with China grow after it joined the WTO? **<a: Reasons mentioned include trade-distorting practices, currency manipulation, misalignment and its suppression of wages and labor rights, and keeping consumption down.>**
- Might the workers who lost jobs due to trade have found jobs in other sectors? **<a: This is acknowledged but said to be “unlikely,” and if they do, these are worse jobs.>**
- How do the authors relate their results to the US overall rate of unemployment during this period? **<a: They don’t mention it.>**
- Did Trump’s policies reverse this? **<a: No, not yet at least. The deficit and job loss grew even larger.>**

Buffett, Warren E., “America’s Growing Trade Deficit Is Selling the Nation Out From Under Us. Here’s a Way to Fix the Problem—And We Need to Do It Now,” *Fortune*, November 10, 2003.

- Why wouldn’t the citizens of Thriftville be willing simply to hold the IOUs of Squanderville? **<a: They fear that they might not be repaid and/or that Squanderville will cause inflation, thus lowering the value of the IOUs.>**
- Is the U.S. trade deficit quantitatively important? **<a: Buffett says it is, and he was writing in 2003. There are several measures of this. One is that, at the rate of our then deficit, the world could annually buy nearly 4% of our traded stocks.>**
- What policy solution does Buffett propose for ending the trade deficit? **<a: Issuing of “import certificates” (ICs), given per dollar of exports and required per dollar of imports.>**