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# Trade Deficits and Stolen Jobs: April Update

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According to the logic of protectionism, Michigan has been stealing jobs from other Midwestern states for years. By stealing automobile production that could be evenly spread around the country, the state has acquired an unfair advantage.

One state over which Michigan has acquired such an advantage is Ohio. With the concentration of manufacturing to its north, Ohio's economy is concentrated in services, which make up 4.4 million of its 5.4 million payroll jobs. Critics of free trade might take this to mean that Ohio is the loser in this exchange, but consider what those service jobs are. To be sure, there are major trade jobs at retailers like Kroger, Wal-Mart, and mall boutiques. But Ohio is best known for its thick blanket of colleges, for its marketing giant Procter & Gamble, and for its world-class health care companies.

Americans understand that internal free trade is a win-win but are often suspicious of external free trade. One argument against external free trade that does not apply to internal trade is that fixed exchange rates are unfair. But that is a curious argument in light of the fixed exchange rate between Michigan and its neighboring states that has been in existence for longer than Michigan's statehood.

When any economy has a trade surplus, that surplus is matched with an investment deficit. So too, the U.S. trade deficit is in balance and arguably caused by an investment surplus. When the U.S. Bureau of Economic Analysis announced on Friday that the total April exports of $129.5 billion and imports of $188.0 billion resulted in a $58.5 billion deficit in goods and services, that deficit was balanced by a surplus of investment in fortress America, primarily in ultra-safe U.S. Treasury bonds. The deficit is $3.9 billion less than the deficit in March.

**The Trade Surplus.** The U.S. registered its largest surpluses in April with Hong Kong ($1.0 billion, compared with $1.3 billion for March), Australia ($0.7 billion, compared with $1.0 billion in March), Singapore ($0.4 billion, compared with $0.9 in March), Argentina ($0.1 billion, the same as in March), and Egypt ($0.1 billion, compared with $0.2 billion in March). One fact worth noting is that the U.S. once again enjoyed its three largest surpluses with the *2007 Index of Economic Freedom's* three freest nations: Hong Kong, Singapore, and Australia. This indicates that the United States can and does succeed in a freer trading environment and that, far from causing large deficits and job losses, greater liberty both in individual nations and in international trade leads to greater prosperity for the U.S.

The U.S.'s exports of goods stood at $91.1 billion in April, virtually unchanged from March, with decreases in exports of capital goods, other goods, and automotive vehicles, parts, and engines offset-

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ting increases in exports of foods, feeds, and beverages, industrial supplies and materials, and consumer goods. From April of last year, U.S. exports grew $12.8 billion, reflecting increases in industrial supplies and materials, consumer goods, foods, feeds, and beverages, automotive vehicles, parts, and engines, capital goods, and other goods.

The United States' exports of services grew $0.2 billion to $38.4 billion from March to April, primarily reflecting increases in travel and other transportation. From April of last year, services exports increased $4.0 billion. The largest increases were in business, professional, and technical services, insurance services, financial services, travel, and royalties and license fees.

**The Trade Deficit.** The United States' largest trade deficits in April were with China ($19.4 billion, compared with $17.2 billion in March), Europe ($10.0 billion, compared with $8.9 billion in March), OPEC ($9.8 billion, compared with $8.7 billion in March), the European Union ($9.0 billion, compared with $7.7 billion in March), Japan ($7.4 billion, compared with $7.1 billion in March), Canada ($5.8 billion, compared with $5.4 billion in March), Mexico ($5.8 billion, compared with $5.4 billion in March), Korea ($1.0 billion, compared with $1.2 in March), Taiwan ($0.7 billion, compared with $1.0 billion), and Brazil ($0.3 billion, compared with $0.4 billion in March).

American imports of goods decreased $3.6 billion to $158.2 billion in April, reflecting decreases in consumer goods, automotive vehicles, parts and engines, capital goods, foods, feeds, and beverages, and other goods. There were, however, increases in imports of industrial supplies and materials. From April of last year, imports increased $8.9 billion, primarily driven by increases in imports of goods, especially consumer goods, industrial supplies and materials, capital goods, and foods, feeds, and beverages. There was a decrease in imports of automotive vehicles, parts, and engines, but other goods were virtually unchanged.

From March to April, services imports remained virtually unchanged, at $29.8 billion. Small increases in some categories of imports were nearly offset by small decreases in others. From April of 2006, services imports increased by $1.6 billion.

**The Final Verdict.** Economic insecurity is being hyped around America, leading to strident calls in Congress for new restrictions on the free flow of goods, capital, and labor. This is the wrong direction for America, and any move to raise tariffs could have catastrophic results. After years of scaring voters with stories of economic decline, protectionists may be about to reap what they have sown.

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