 by Leif Johnson

U.S. deficit close to $120 billion

The level of manufactured imports at bargain prices has been systematically under-reported.

As the United States has dismantled its own ability to produce, it has attempted to compensate by importing: In the midst of the worst decline of world trade since the last war, America's trade deficit is projected to rise to $60-$70 billion for 1983. Major sectors of production, including automotive, electronics, and metals processing could not presently function without such imports.

This represents a much larger net inflow of manufactured goods to the United States than even the huge deficit numbers show. Since 1980, the rise in the U.S. dollar has reduced American import prices and increased American export prices by over 10 percent. Not counting the big American agricultural exports surplus, the balance of trade under 1980 terms of trade is about twice as large, equivalent to $120 billion. This is a dramatic measure of the underlying decay of the American economy.

World Trade continued to decline during the first half of 1983, and the collapse of the external finances of deficit nations makes it almost certain that this year will be the third year in a row in which world trade has declined—a development not seen in peacetime except for 1931-1935 (see Figure 1). Within the decline in world trade, American import volume has clearly risen, reflecting huge, temporary increases in semi-manufactured and manufactured goods (e.g., chemicals, non-ferrous metals, and auto parts) destined for consumption in consumer-related "boom" sectors of the economy. These imports more than compensate for sharp declines in petroleum and industrial materials imports, whose collapse shows the underlying state of decline in the economy.

Although data on import volume (as opposed to price) are incomplete, the partial data available demonstrate that the deceleration in the American economy's rate of decline during the past year would not have been possible without a subsidy from America's trading partners, especially the developing sector. That the United States is, in effect, living on the rest of the world's charity is not a popular or encouraging argument, but the available data show irrefutably that this is the case.

The trade balance is projected at about $65 billion for this year, although the August deficit of $7.1 billion converts to an annual rate of more than $85 billion.

However, the current-dollar numbers vastly underestimate import and overstate export levels, due to the extreme improvement in the terms of trade of the United States. An estimate of these terms of trade (the change in the relative prices of imports and exports) is given by the International Monetary Fund (see Figure 2).

The 1983 figure is an underestimate, given the sharp rise in the dollar's international parity. Comparing import volumes to the end of 1980, i.e., before the mid-1981 industrial collapse began, we may use the terms of trade changes to adjust the 1983 figures to their 1980 equivalents as follows:

The trade deficit, in 1983 dollars, is projected at $165.424 billion. Adjusted for improved terms of trade, the deficit in 1980 dollars would be $108.245 billion. Deducting the agricultural surplus to measure the industrial nature of the deficit more closely, we find that the deficit is $120.365 billion.

This calculation projects the 1983 deficit on the basis of the May-to-August level, and then applies the changes in terms of trade since 1980 to adjust imports upwards and exports downwards. The same criterion was applied to the non-agricultural deficit, which is greater than the overall trade deficit. This gives a somewhat closer measure of the "real" level of industrial subsidy.

Figure 1
World exports
(billions of current dollars)

Year	Value of exports
1978	1,200.0
1979	1,523.6
1980	1,867.8
1981	1,837.0
1982	1,694.5
1983 (est.)	1,500.0

Figure 2
Change in U.S. terms of trade

1980	−13.2
1981	+ 3.7
1982	+ 3.7
1983 (est.)	+ 2.1