

## U.S. Trade Gap Widened Again in '94, Marking 13 Straight Years of Deficits by Bob Davis

WASHINGTON -- When Mexico's current-account deficit soars, investors panic and a financial crisis unfolds. When the U.S. current-account deficit soars, investors yawn and the country hums along.

What's going on?

The differing reaction reflects the different status of the two nations. Put simply, it would take a lot more financial misfortune to drive a nation as large and economically diverse as the U.S. toward insolvency than it would Mexico. But the ho-hum response also reflects another reality: The deficit numbers aren't nearly as scary as they seemed a decade ago.

The current account is the widest measure of a nation's trade position. It includes trade in goods and services, investment income and government grants. By most of those measures, the U.S. is in bad shape.

Yesterday, the U.S. reported that its current account remained in deficit during 1994, for the 13th consecutive year. Worse, the size of the deficit surged to \$155.7 billion from \$103.9 billion in 1993.

Economists attribute the burgeoning current-account deficit last year to a 25% increase in the merchandise trade deficit to \$166.4 billion. And for the first time since the end of World War II, annual income that Americans received from investments abroad trailed – by \$15.2 billion – the amount

foreigners received from U.S. investments.

These deficits "have made us a poorer nation, they've squeezed living standards," says Lawrence Chimerine, chief economist for the Economic Strategy Institute. The Washington think tank says the U.S. must take a hard line in opening up Asian markets and reducing the trade deficit.

But as bad as the latest numbers sound, they're not in Mexico's league. There, the current-account deficit was approaching 8% of Mexico's gross domestic product – the total value of goods and services produced in the nation. That's such a steep shortfall that investors feared Mexico wouldn't be able to pay for its imports or pay back its debts without devaluing its currency and begging for help. As the peso drops, of course, the value of foreigners' Mexican holdings declines, too. Investors bolted, fearing the worst.

In the U.S., however, the current-account deficit is about 2.3% of GDP, well shy of the panic stage. Moreover, many economists argue that the U.S. will always be able to borrow enough money in the international bond market to cover imports because the dollar is so fundamental to international commerce.

Nevertheless, the persistent deficits help undermine the dollar. As U.S. consumers spend more to buy VCRs from Japan and BMWs from Germany than foreigners spend on U.S. exports, dollars flood world

markets. To get those dollars back, U.S. markets are under pressure to offer higher interest rates. That, in turn, could weaken economic expansion. "If we let deficits rise and foreign debt pile up, we could have a problem," warns Fred Bergsten, director of the Institute for International Economics, a think tank in Washington that usually takes a free-trade line.

The last time the current account dropped to such depths – in the mid-1980s – the reaction was much harsher. The deficit became a symbol of flagging U.S. competitiveness. The auto industry was on the ropes, as were steel and semiconductors. Lawmakers threatened trade wars with Japan. The supposedly free-trade Reagan administration limited imports of autos, machine tools, steel and computer chips, among other products.

At the same time, Reaganites launched a new round of global trade talks, hoping to constrain protectionist forces.

This time, nothing of the sort. The supposedly managed-trade Clinton administration has won approval of several trade-liberalization agreements, and has easily fended off pressure to shut down imports. Few argue that the trade deficit says anything about U.S. business competitiveness. The auto and semiconductor industries have become symbols of an American industrial renaissance; the steel industry is holding its own.

Again, what's going on?

In the mid-1980s, industry could argue that a strong dollar was limiting U.S. exports; now a weak dollar gives exports a push. In a perverse way, the merchandise trade deficit is a sign of U.S. economic strength. Imports are up because the U.S. economy is humming; exports are constricted because the rest of the world hasn't caught up.

And there is a third factor: the growing strength of the service industry. In 1987, the record deficit year, the U.S. service sector showed a surplus of \$7.6 billion; last year, that surplus bulged to \$60 billion. The service surplus includes travel, royalties and insurance, among other things.

Still, that isn't a reason to get complacent. By the broadest definition, the current account reflects the difference between savings and investment spending – with the U.S. consistently spending more than it takes in and turning to foreigners to make up the difference. Many economists urge the government to cut its budget deficit to boost savings. Mr. Chimerine urges tougher action to open Japan, China and other Asian markets that run persistent surpluses with the U.S. So long as the U.S. imports more than it exports, he argues, it diminishes the nation's capacity to save.

"It's not an immediate crisis," he says. "But over time, it's a corrosive factor for the economy."

---

(Copyright (c) 1995, Dow Jones & Co., Inc.)