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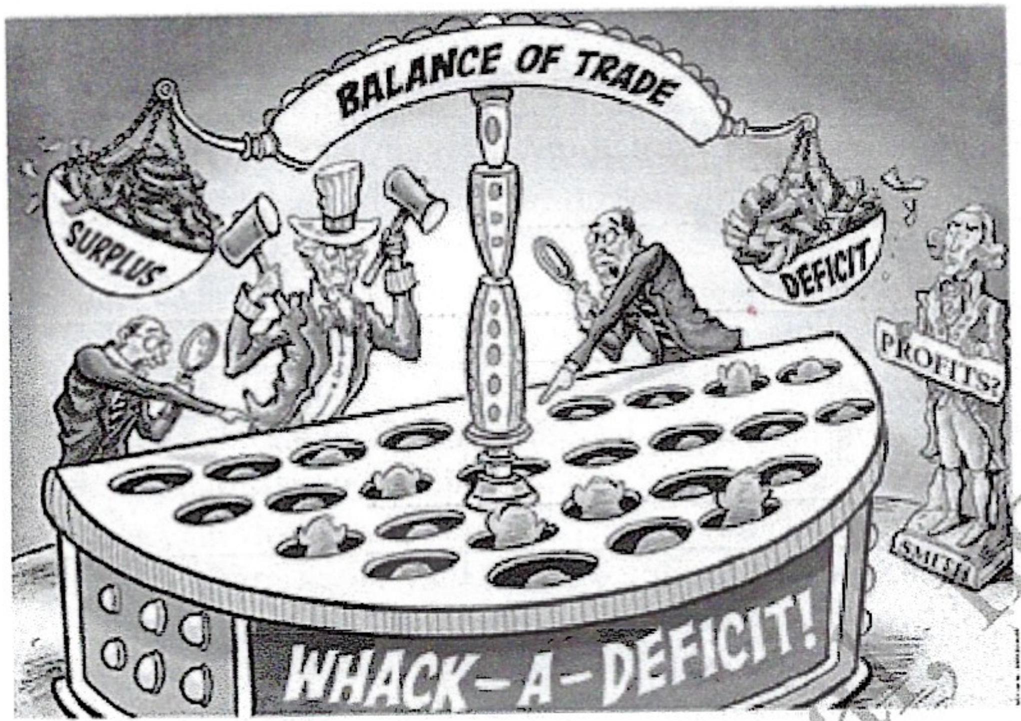
Trump isn't the first to suffer from it, and seeking 'balance' in 2026 is as foolish as it was in 1776.



CHAD CROWE

Trade Deficit Derangement Syndrome

By Bill Wilby

President Trump is obsessed with trade deficits. You might say he has trade-deficit derangement syndrome, or TDDS.

But he is far from the first to suffer from this affliction. More than half a century ago, in June 1976, the government-appointed Advisory Committee on the Presentation of Balance of Payments Statistics issued a landmark report recommending fundamental changes in how the Bureau of Economic Analysis presented U.S. balance-of-payment data. Among other changes, the committee recommended that the data on trade should be included only in footnotes to the press release, and the use of the terms "deficit" and

"surplus" should be eliminated or at least carefully circumscribed because the data was so subject to misunderstanding and misuse by politicians and pundits. But TDDS was rampant in Congress. Lawmakers refused to give up their whipping boy and ignored the committee's recommendations.

History rhymes: After refusing to renew the U.S.-Canada-Mexico Agreement this month, the U.S. established an annual review panel to examine the prices and sources of inputs for individually traded goods between the U.S. and its two partners for the purpose of creating "a level playing field to reduce trade deficits."

Note

Adam Smith knew better. "The Wealth of Nations," published in 1776, sought to explain why trade imbalances were good for both sides, and deficits, on favorable terms of trade and willingly financed, were preferable because they resulted in real wealth accumulation.

Even David Ricardo's beautiful but counterintuitive idea of comparative advantage implies that if you gain a competitive advantage in one product, you will lose the advantage in something else, because it is relative, not absolute, prices that drive trade advantages. The U.S. may be very competitive in automobile production, but it is so much more competitive in the production of microprocessors that it pays to import autos and export microprocessors.

Forget arcane economics—does anyone really care if Pennsylvania runs a trade deficit with New Jersey? No, it's normal free-market commerce, and trade balances swing in cycles based on demographics, relative growth rates, values, exchange rates, relative monetary conditions, elasticities of demand and supply and many other factors.

To be sure, it isn't 1776 or 1976; it's 2026 and the U.S. has seen its manufacturing base hollowed out. Neither Smith nor the BEA Commit--tee wrote in the time of multitrillion- dollar corporations with sprawling networks of overseas subsidiaries and suppliers, when more than half of trade is intercorporate, not just international.

Note Note

Yet some basics still apply: First, a deficit or surplus on the trade or Services Account (both part of our current account balance) is a balance of revenue, not a balance of profits. Second, profits, not revenue, drive wealth accumulation. Note Third, in today's world of outsourced manufacturing and intercompany trade, American corporations import for the most part high-revenue, lowmargin (i.e., low intellectual content) products like printed-circuit boards or automobiles and export high-margin (high intellectual content) products like artificial-intelligence chips or biopharmaceuticals. Note

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What this means in practice is that while the U.S. runs a revenue deficit on trade, we run an enormous surplus in profits on trade when properly accounted for. This is clearly obvious in global statistics on profits and wealth accumulation. From 1998 to 2024 U.S. corporate profits grew from around $500 billion to $3.7 trillion, a more than sixfold increase. The rest of the world saw profits grow from $102 billion to $457 billion, only a 3.5-fold increase. Said another way, the U.S., with 5% of the global population and 25% of global GDP, made 83% of world profits in 1998, which increased further to 89% in 2024. Not surprisingly, over the same period U.S. household net worth has increased from $37 trillion to $174 trillion today, the greatest accumulation of wealth in the history of the planet, and the U.S. stock market has outperformed all other world markets (occasionally excepting Sweden) massively since World War II. Exactly what problem is the Trump administration trying to solve?

Note

Yes, there are issues in the distribution and sharing of this wealth, as Smith was the first to acknowledge. But the source of that problem is the long-term political bias in favor of stimulative (as opposed to restraining) monetary and fiscal policies in America, which cause capital and money to leak offshore in search of higher returns. The administration is doubling down on this approach. Finally, while there are clear national-security arguments against offshoring the manufacture of products like bullets and medical supplies, there is a huge difference between thoughtful policy targeting self-sufficiency in strategic industries while not moving down the value chain in overall manufacturing and trying to reduce the bogeyman trade deficit and squandering national profits in the process. This is especially the case when other policies (quantitative easing, the One Big Beautiful Bill Act) pursued simultaneously have the effect of expanding the trade deficit and driving capital offshore. This is whack-a mole and the real reason for TDDS in the first place.

Note

Smith was right. It made no sense for politicians in 1776 to sit in a room trying to balance the trade deficit of imported wine over exported British wool. It's equally ridiculous for a group of officials to meet today to balance the prices and favored sources of imported components in the much more complicated and voluminous trade relationship of the USMCA. A cure for trade-deficit derangement syndrome can't come too soon.

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