

Should the U.S. Trade Deficit be Redefined?

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Related Author

- [James K. Jackson](#)

James K. Jackson, Specialist in International Trade and Finance (jjackson@crs.loc.gov, 7-7751)

The U.S. merchandise trade deficit represents the difference between a country's exports and imports of goods. For some, the trade deficit is a flashpoint for concerns about the overall condition of the economy. Most economists argue this characterization misrepresents the nature of the trade deficit and the role of trade in the economy. Some policymakers support redefining the trade deficit in ways that would effectively increase the size of the deficit by more narrowly defining an export. Others argue that U.S. trade data should be redefined in ways that capture value added through various stages of production in global value chains (GVCs).

The [U.S. Census Bureau](#) publishes export and import data in various ways to convey different concepts, as indicated in **Table 1**. These concepts represent goods at various stages of shipment and to account for goods subject to tariffs. Within the double-entry balance of payments bookkeeping system, exports are recorded as a positive amount, because they represent an offsetting credit, while imports are recorded as a negative amount, because they represent a debt. In general, the Census Bureau publishes U.S. trade data on a census, or customs, basis, which includes all goods subject to tariffs, and on a balance of payments (BOP) basis which reflects adjustments by the Bureau of Economic Analysis (BEA) to make the data comparable to the concepts and definitions used in the international and national accounts. In addition:

U.S. total exports include domestic exports, or commodities grown, produced or manufactured in the United States, and reexports.

Reexports are commodities that entered the United States as imports, but are then reexported in substantially the same condition and, therefore, not consumed in the United States.

General imports represents the total value of goods shipped to the United States, while imports for consumption represents goods that have cleared customs and are entered into the consumption stream, although some may be reexported.

As indicated in **Table 1**, total U.S. exports in 2016 were about \$1.5 trillion; general imports were \$2.2 trillion, and the merchandise trade deficit was \$734 billion on a census basis. Some groups have suggested altering current practices by excluding reexports from U.S. export data, while continuing to count them as imports. As indicated in **Figure 1**, calculating the trade deficit using domestic exports, or subtracting reexports, while counting reexports as imports as they pass through the country would have increased the 2016 merchandise trade deficit to \$1.2 trillion. [Former BEA Director](#)

[Steve Landefeld](#) argues that including reexports as imports without the same offset to exports would create misleading statistics by increasing the merchandise trade deficit.

Table 1. U.S. Merchandise Export, Imports, and Alternative Measures of the Trade Balance

(in billions of dollars)

	2014	2015	2016
Merchandise exports			
U.S. total exports (Census basis)	\$1,621	\$1,503	\$1,455
U.S. domestic exports	1,399	1,287	1,230
Reexports (total exports minus domestic exports)	221	216	224
U.S. total exports (BOP basis)	1,633	1,510	1,460
Merchandise imports			
U.S. general imports (Census basis)	\$2,348	\$2,248	\$2,189
U.S. imports (CIF basis)	2,413	2,315	2,251
U.S. imports BOP basis	2,385	2,273	2,210
U.S. imports for consumption	2,314	2,219	2,176
Alternative measures of the trade balance			
Census basis	\$-727	\$-746	\$-734
BOP basis	-752	-763	-750
Total exports (census) less Imports (CIF)	-792	-813	-797

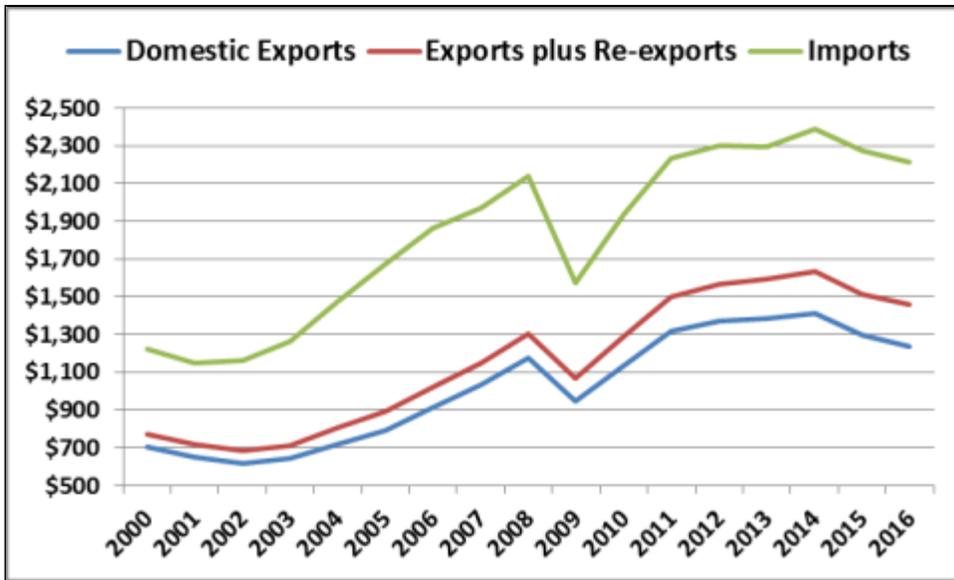
Domestic exports less imports for consumption	-915	-932	-946
Domestic exports less imports for consumption plus reexports	-1,136	-1,148	-1,170

Source: Census Bureau and CRS calculations.

Note: Export data also are published on a F.A.S. and F.O.B. basis (representing differences in delivery terms for the seller), which includes freight, insurance and other charges. Import data also are published on a C.I.F. basis, which includes cost, insurance, and freight.

Figure 1. U.S. Domestic Exports, Reexports, and Imports

(in billions of dollars)



Source: Census Bureau.

Previous Administrations have similarly reviewed U.S. trade data to better understand the U.S. trade deficit. The United States has experienced an annual merchandise trade deficit during most of the post-WWII period. Some observers view this deficit with concern and argue that it costs U.S. jobs, is unsustainable, or represents unfair trade practices by foreign competitors. Economists, however, generally argue that the trade deficit is the product of U.S. macroeconomic policies, which shape the overall demand for and supply of funds within the economy.

Currently, the demand for capital in the United States outstrips the amount of gross savings supplied by households, firms, and the government sector (a savings-investment imbalance), which pushes up domestic interest rates. Capital inflows bridge this gap between domestic saving and investment and allow the country to consume more than it produces, represented by the trade deficit. Foreign investors also acquire dollar-denominated assets as safe-haven assets during times of economic stress. Foreign demand for dollars and dollar-denominated assets increases the exchange value of the dollar, which raises the cost of U.S. exports and reduces the cost of imports with the resulting trade deficit being the offsetting equivalent of the capital inflows. Economists argue that adopting policy measures that aim to reduce the trade deficit without addressing the underlying macroeconomic imbalances are likely to create various dislocations within the economy. Furthermore, most economists argue that domestic wage rates, the rate of unemployment, and the overall rate of growth in the economy are the product of the macroeconomic policy environment rather than trade

generally or the trade deficit.

More recently, [economists](#) generally have argued the trade data should be updated to reflect value added through global value chains (GVCs) and intra-firm trade. Currently, value added is attributed to only one country in the chain, yet some [estimates](#) indicate that foreign value added accounts for 15% of U.S. gross exports and 23% and 31%, respectively, of exports from Canada and Mexico, much of it from U.S. sources. In general, GVCs support increased trade in intermediate goods that complicate trade data; challenge traditional concepts of domestic versus foreign firms; and blur the distinction between exports and imports. Intra-firm trade, or trade among similar components by firms, accounts for nearly one-third of all U.S. trade and similarly blurs the distinction between domestic and foreign goods.