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Letter

Trump has valid reasons to be concerned about the US trade deficit

From Daniel Aronoff, Birmingham, MI, US

5 HOURS AGO

Sir, Martin Wolf correctly points out that a country's balance of trade is unrelated to its degree of openness (“[Dealing with America's trade follies \(https://www.ft.com/content/fca7e9a4-2366-11e7-a34a-538b4cb30025\)](https://www.ft.com/content/fca7e9a4-2366-11e7-a34a-538b4cb30025)”, April 19). But he is on less solid ground in arguing that protectionist policies cannot affect the trade balance, and his assertion that “differences in national savings rates are powerful predictors of current account balances” confuses correlation with causation.

A tariff reduces imports by increasing the cost of foreign goods. There is no reason to suppose lower imports will cause an offsetting decline in exports. Mr Wolf assumes diminished imports will contract demand for foreign currency thereby increasing the relative value of the dollar, which will reduce offshore purchases of US goods. But the effect on currency values depends on the exchange rate policies of other countries. The Trump administration claims US trade deficits are the result of currency interventions by foreign countries to depress their currencies. The fact that holdings of dollar assets by offshore central banks has ballooned in line with the US trade deficit is compelling evidence in support of that claim.

Mr Wolf has elsewhere shown the correlation of national saving with the trade balance to be a tautology arising from the requirement that sectoral financial balances net to zero. It does not explain causality. It is well documented that, beginning in 1997, countries affected by the Asia financial crisis, followed by China, accumulated massive dollar reserves, which caused a negative US foreign sectoral financial balance (in other words, a negative national saving rate) and a negative trade balance.

Finally, while Mr Wolf is indisputably correct that “the trading system has been the basis of post-second world war prosperity”, it is also the case that large US trade deficits have

contributed to financial instability and depressed domestic demand.

Therefore, President Donald Trump's concern over the US trade deficit is valid.

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