

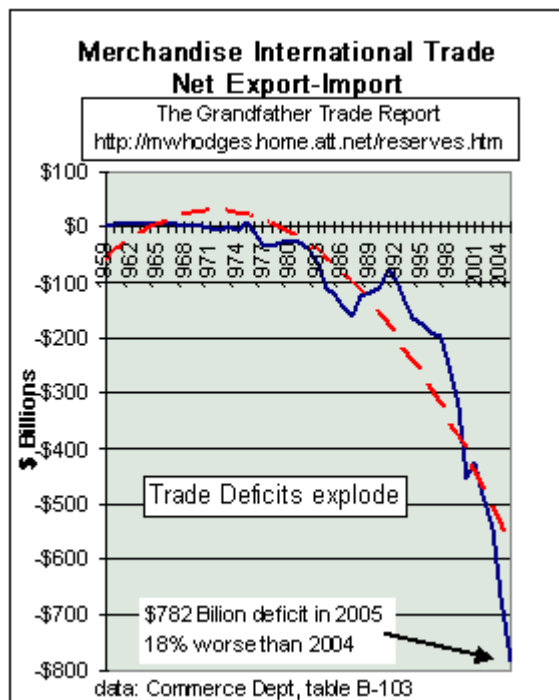
- Year 2005 trade performance produced a \$782 billion merchandise trade deficit, the largest negative trade balance in history.
- Cumulative trade deficits since 1985 total \$5.7 Trillion - - producing a negative international net worth of \$5 Trillion.
- And, these trade deficits are owed to non-Americans - - not to ourselves.
- Our annual international trade deficit is 35% larger than Social Security spending, 50% larger than all defense spending, and 2.5 times larger than Medicare. This International Trade Report, together with the chapter called [America's Total Debt Report](#), proves we are living way beyond our means.



For decades Americans enjoyed the game of consuming more than we produce, borrowing from the future to make-up the shortfall with unprecedented ratios of domestic and foreign debt increasing much faster than national income. These are dramatic facts, with significant long-term implications for the currency, international economic power, relative standard of living, and possible **national security** of our nation's children into the future.

**This lack of savings and over-borrowing from foreign interests cannot continue forever. The signal to free-up our economy from debt addiction is clear.**

## INTERNATIONAL TRADE - NEGATIVE TRENDS EXPLODING !!



This chart measures the U.S. merchandise (goods, excluding military) trade balance each year since 1959. It shows previously the USA ran a balance of trade, meaning we were able to sell enough goods to other nations to pay for what we purchased from them.

America **now runs massive deficits**. If a country runs a trade deficit it is **borrowing from the rest of the world so that it can spend in excess of its own production**. This means the USA is less competitive than before. **NOTE: The U.S. is setting record negative trade balances each year. Since 1992, deficits have exploded. Look at that trend!!**

This chart shows **2005 trade performance in goods was a \$782.1 billion trade deficit - - the largest negative trade balance in history**, 18% worse than prior year and 43% worse than 2003. Look at this chart again. **Dangerous trend!!!**

How can this record deficit continue in light of a falling exchange rate? The answer is an easy one > America's

private and government sectors are increasing debts at a faster rate, much faster than incomes, causing more consumption and imports than could be supported by incomes and negligible savings. In

a nut-shell > **America is living beyond its means - - way, way beyond!!**

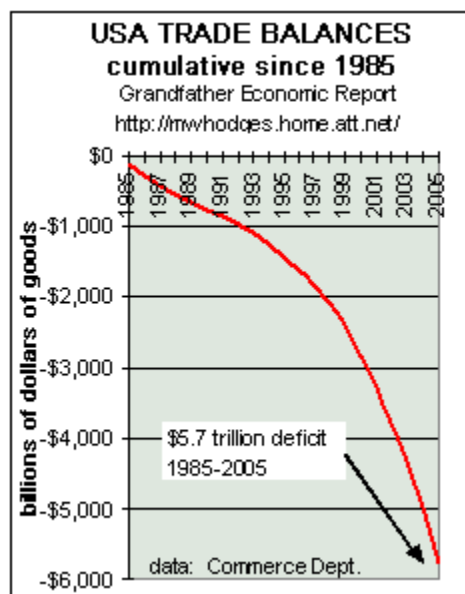
The **manufacturing base shrinkage** is a major negative regarding trade balance, and a major negative impact on U.S. economic independence and future living standards.

In the 12-months to **February 2006** the U.S. had a total merchandise trade **deficit of \$789 billion**, while **Japan & Germany** produced a cumulative **trade surplus** of \$283 billion (\$86+\$196). **That's a whopping \$1.07 trillion worse relative trade performance for the U.S.**, in JUST ONE YEAR. In 2001, for the first time, **China surpassed Japan** as the country with the largest trade gap with the United States. America's deficit with China surged 95% in the next 3 years, reaching \$202 billion and 27% of total US trade deficits in 2005.

This vividly shows how America is living beyond its means - - by consuming more goods made by others than it produces to meet the needs of foreigners - - resulting in **exploding debts in favor of foreigners, in addition to record high domestic debt ratios** of household, business and the domestic financial sectors.

It can be seen that the pattern since the mid 1970's brings into focus the basic question above - - America's **lack of competitiveness** world-wide - - increasingly so each year. **This indicates the U.S. has become less competitive**, despite claims of recent improved productivity (mostly realized only by a narrow part of the economy and primarily by revising how they measure productivity and inflation).

**USA CUMULATIVE TRADE DEFICITS—past 19 years**



The chart above showed the USA merchandise trade deficit for each year - - reaching an **all-time record deficit in 2005 of \$782 billion**.

The left chart shows the USA **cumulative** merchandise trade deficit - - with all nations since 1985. (cumulative means adding all deficits)

The cumulative merchandise goods trade deficit was **\$5.75 Trillion during the last 20 years** (since 1985). That means **each American man, woman and child effectively borrowed \$19,827 from producers in other nations**, because we Americans consumed more goods from other nations than we produced and sold abroad. As a result, foreigners now own nearly \$6 trillion more in US assets than in 1985.

Not shown on the chart is the cumulative goods trade deficit **since 1976 - - totaling \$6.12 trillion**. Prior to that period America produced near continuing surpluses with the rest of the world allowing America to own more assets in foreign nations

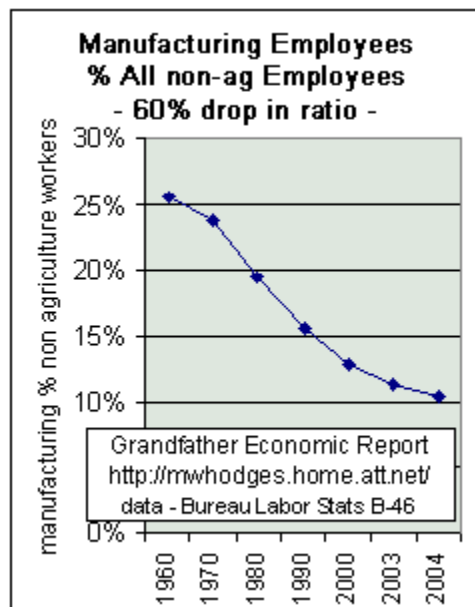
than they in ours. However, that net has eroded over recent years to an **accelerating negative net worth**.

Taking into account goods and services, and investment flows, which is called the current account - - "foreign-owned assets in the US totaled US\$9.4 trillion in 2001 while US claims on the rest of the world amounted to US\$7.2 trillion," according to the White House Council of Economic Advisers - - meaning a net \$2.2 trillion deficit with other nations as of 2001. Adding to this negative the combined current account deficits of \$1.64 trillion for 2002, 2003 and 2004 sums to nearly **negative \$4 trillion against the U.S. in favor of non-U.S. entities**. Not only is the technology product sector in deficit, but the U.S. Department of Agriculture Economic Research Service estimates 2005 will be the first year in nearly 50 that America will not turn an agricultural trade surplus.

**How can competitiveness be said to rise as the result of higher so-called "productivity" if at the**

**same time the trade deficit explodes? What competitiveness?"** It is clear that the so-called 'economic boom' of the 1990s was a false boom, because the economy was fueled primarily by increasing internal and foreign debt - - instead of by internal production, savings and competitiveness. **The above chart shows our growing lack of competitiveness as we increase foreign debt at a faster pace.** The long-term performance of our currency is our fault > negative trade balances fueled by massive domestic and international debts.

### MANUFACTURING BASE DECLINE



How can America ever export enough goods to other nations to balance its negative balance of trade of soaring imports if it has a declining manufacturing base?

The left **chart**, from the [Family Income Report](#) chapter about stagnant income growth, **shows** the trend of the number of **manufacturing workers** as a percentage of all U.S. employees (non-agriculture) - - from 26% in 1960 to 10% in 2004, a **60% drop in the manufacturing ratio**.

On a **GDP basis** the trend is the same negative > the U.S. **manufacturing base declined** from 30.4% of GDP in 1953 (when we had a trade surplus) to 12.7% in 2003 - a **58% drop in the manufacturing share of GDP** - and more of the remaining manufacturing base is foreign-owned than before. (Bureau Economic Analysis table b-12, Economic Report of President, appendix table)

The number of manufacturing employees declined 17% from 2000 to 2004.

As America's manufacture of goods has become a much smaller share of the economy and of its work-force, the U.S. became 5 times more dependent on foreign imports - - consuming 16% of national income, up from but 3% in 1960s. The export ratio has not improved in 30 years, despite many [devaluations of the dollar](#).

Note the **down-sloping trend of this chart far pre-dates the opening of China as a major world manufacturer**.

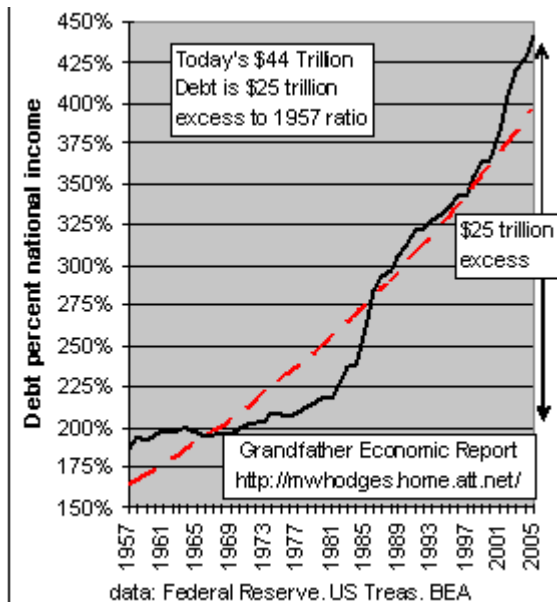
According to economist Steve Roach of Morgan Stanley (4/05), "the average Chinese **manufacturing worker** made 12,496 yuan in 2003, which translates into about US\$29 per week. By contrast, average weekly earnings of US manufacturing workers amounted to \$636 per week in 2003. With Chinese manufacturing wage levels only 4.5% of their US counterpart, it would take about 20 years of sustained 15% annualized Chinese wage inflation to close half the wage gap with the US. Don't kid yourself. Even with Chinese wage inflation, the economics of the labor arbitrage between the US and China remain compelling for as far as the eye can see." Of course Mr. Roach's statement assumes no inflation in the USA during the next 20 years, most unlikely considering [U.S. inflation history](#).

**Bottom-line** > manufacturing base shrinkage is a major negative regarding America's trade balance, economic independence and future living standards, including national security.

### DEBT-DRIVEN IMBALANCES



The chart at the top of this page showed America's trade deficits started soaring in the late 1970s to early 1980s. Today's deficits are increasing even faster.



Now look at the left chart, from the powerful chapter '[America's Total Debt Report](#).' It shows America's total debt (sum of all government debt and all private debt of households, business, and financial sectors) started to grow faster than growth of the economy's national income - - at about the same time (late 1970s to early 1980s) - - increasing even faster today.

What this says is that debt drives over-spending, over-consumption - - beyond incomes and savings. Therefore, excessive debt also drives imports - - faster and faster, driving soaring trade deficits.

This chart is a ratio chart - - a ratio of total debt in America to national income. If America's debt dependence were not growing faster than the economy during this period the chart's trend line would have remained horizontal. However, the debt ratio's trend line

is straight up in the past 25 years, which means debt increased each and every year faster than growth of the economy. Much of that debt was promoted by Federal Reserve interest rate and government tax policies - - including more rapid debt growth lately fueled by record low interest rates.

This 25+ year period of rapid debt growth (and rapid growth of trade deficits) was also a period of relatively stagnant inflation-adjusted median family income growth according to the [Family Income Report](#) chapter. That chapter also reports very strong income growth in the earlier period of this chart when debt ratios were not growing and when trade imports vs. exports were in balance.

**To say soaring trade deficits were greatly influenced by soaring internal debt generation, which drove consumption beyond incomes and personal savings, would be an under-statement, for sure.**

What are foreigners doing with that which we borrowed from them? Answer: they own increasing percentage of our businesses, stocks, bonds, real estate and [government treasury bonds](#). Meaning > > Americans own less and less of their nation.