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RECKONINGS / By PAUL KRUGMAN

Deficit Attention Disorder

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A long time ago, in an economic universe far, far away, people cared about the trade balance. When the U.S. trade deficit passed $100 billion for the first time, there was much wailing and gnashing of teeth. Doomsayers warned of an imminent "hard landing" in which a crashing dollar would precipitate economic crisis. Even calmer types regarded the unprecedented red ink as a warning sign.

But a funny thing happened on the way to the 21st century: people lost interest in the trade balance. In January, the Commerce Department announced last week, the United States set a new world record: the biggest monthly trade deficit ever. (Is this a great country, or what?) Measured as a share of G.D.P., last year's current account deficit (the broadest measure of the trade gap) was wider than ever before. But the markets couldn't have cared less. They were more interested in the accounts of MicroStrategy (a high-flying tech stock that lost two-thirds of its value in one day when it adopted a new accounting standard) than in those of the United States.

In some ways this lack of interest is a good thing. Obsession with trade balances has historically been a source of bad economic policies. It's probably for the best that state governments don't know whether their trade with other states is in surplus or deficit; their ignorance keeps them out of mischief. And not paying attention is almost as good as not knowing.

Still, perhaps we shouldn't be quite so indifferent.
At the moment the U.S. trade deficit is good, not bad, for our economy. It doesn't cost us jobs because we already have more than enough domestic demand. We aren't having any trouble paying for imports: the inflow of money from investors eager to buy into our miracle economy has easily matched the outflow to pay not only for all those Lexuses and BMW's, but for the suddenly more expensive oil they burn too. And this inflow of capital helps keep stocks high and interest rates low.

Besides, by any other measure the United States is performing superlatively compared with every other major economy. We have the highest growth, the lowest unemployment, the biggest budget surplus. To focus on the trade deficit, you might argue, would be like short-selling a rapidly growing company because it doesn't pay dividends.

But just as even the newest of new economy companies must eventually justify its existence by returning money to investors, even the most successful economy must sooner or later export enough to pay for its imports. Our current position, where we pay for many of our imports by attracting inflows of capital -- in effect by selling the rest of the world claims on our future exports -- cannot go on forever. And as the late economist Herbert Stein declared, "If something cannot go on forever, it will stop."

The most likely scenario is that the trade deficit will eventually be reined in by a decline in the foreign-exchange value of the dollar. The great dollar slide of 1985-87, precipitated by a trade deficit that was actually smaller compared with G.D.P. than the deficit today, reduced the value of a dollar by 40 percent in terms of German marks and Japanese yen. And there is no obvious reason why the same thing can't happen again.

But if that is the way it will play out, at least some of the money we are now pulling in is being brought in under false pretenses. Right now foreign investors are willing to hold 10-year U.S. government bonds, even though they pay only a slightly higher interest rate than their European counterparts. Those investors seem to believe, in other words, that today's strong dollar will persist for another 10 years. But the size of our trade deficit makes that unlikely. So foreign investors, and therefore the value of the dollar, are arguably doing a Wile E. Coyote -- one of these days they will look down, realize that they have already walked over the edge of the cliff, and plunge. And when they do it will come as a rude shock not only to them, but also to American financial markets that have become accustomed to big inflows of foreign money.

The trouble, you see, is that in economics, as in life, what you don't
pay attention to *can* hurt you.