

No Trade War Please, But...?

February 2018

The current U.S. administration's views on global trade should be pretty clear by now.

Secretary of the Treasury Steve Mnuchin at the recent Davos gathering:

“We absolutely believe in free and fair trade, and anybody who wants to do trade with us on a reciprocal basis is welcome to do it.”

Secretary of Commerce Wilbur Ross at the same gathering:

“We don't intend to abrogate leadership,” Ross said. But “leadership is different from being a sucker and being a patsy.”

More from Ross at Davos:

“The Chinese have for quite a little while been superb at free-trade rhetoric and even more superb at highly protectionist activities.”

Ross went on to criticize the Chinese financial system, which provides subsidies to key industries; Chinese policies forcing foreign companies to transfer technology; and China's failure to adequately protect intellectual property.

Patsy, no more. The new administration is taking an American First position on global trade agreements. Why have they taken this position? Let's explore some possible reasons...

When globalization started around 1980, U.S. federal debt to GDP was 30%. Today, U.S. federal debt to GDP is over 100%. (Total U.S. federal debt today is around \$20 TRILLION.)

During this same period of time, the percentage of U.S. household debt to personal income rose from around 65% to around 100%. (Both household income and debt today are around \$13 TRILLION.)

Household debt to income has not increased as much as federal debt. But add the two together and today total U.S. household debt to income has exploded to about 250%. (End of the day, federal debt is the responsibility of its citizens.)

During the last presidential administration alone U.S. federal debt rose almost \$9 TRILLION.

The explosion of U.S. debt has been buffered by the collapse in interest rates and the Federal Reserve's quantitative easing (QE) money printing exercise.

The dramatic lowering of interest rates has kept the debt explosion from causing severe pain for both households and the federal government. But low interest rates have sapped the investment returns of conservative savers. These low interest rates coupled with around \$3.6 TRILLION of QE during the last administration have also triggered steep increases in real estate and stock market values, pushing the wealth gap to even greater extremes.

There's more...

In their 2016 annual report, the U.S. Treasury calculated that the capital shortfall coming from the current unfunded Social Security and Medicare promises amounts to about \$46.7 TRILLION. **That's \$46.7 TRILLION dollars of UNFUNDED liabilities.** This figure makes the current \$20 TRILLION of federal debt seem like a walk in the park. These unfunded liabilities don't even include the projected federal, state and municipal government worker pension and retiree health care costs.

Exactly who is going to pay for America's debt and these unfunded promises? China? Europe? South America? Canada? Africa?

To put these figures in perspective, if the U.S could take every penny away from every billionaire in the world it would only collect around \$7T. That leaves the U.S. about \$60 TRILLION light. Where's that money going to come from?

This looming liability problem is exacerbated by the U.S. trade deficit.

What is a trade deficit? Simply put it's where the U.S. sends more money overseas than global "partners" send back. In effect, it is a siphoning of U.S. money to overseas interests. In populist parlance, it is a U.S. subsidy of globalization.

In 2016 the U.S. trade deficit was around \$500B. That means the U.S. sent the world \$500B more than the world sent back to us. That's just in trade. This does not include the billions of dollars (around \$60B annually) in aid the U.S. lavishes on many parts of the world.

According to U.S. Census data, since 1980 the U.S has sent almost \$11 TRILLION more trade dollars to the world than they have sent back. Who in the world is going to send that money back so the U.S. can pay off debts, fund future liabilities and invest in economic and social infrastructures?

To be fair, some of that \$11 TRILLION trade deficit has been used to purchase U.S. federal debt. Today about \$6 TRILLION of the \$20 TRILLION of U.S. federal debt is owned by foreigners. Both China and Japan each own a little over \$1 TRILLION. On the one hand, the U.S. could be thankful these countries have invested in the U.S. On another hand, U.S. citizens might be scratching their heads... "Didn't we already send you our dollars to buy your stuff? Now we owe you more money?"

Globalization has been great if you are a foreign citizen, not so great if you are an average American outside the global elite. Because of globalization, "third world" countries are now

emerging economies with a growing middle class, while the new “third world” looks to be America’s middle and lower classes.

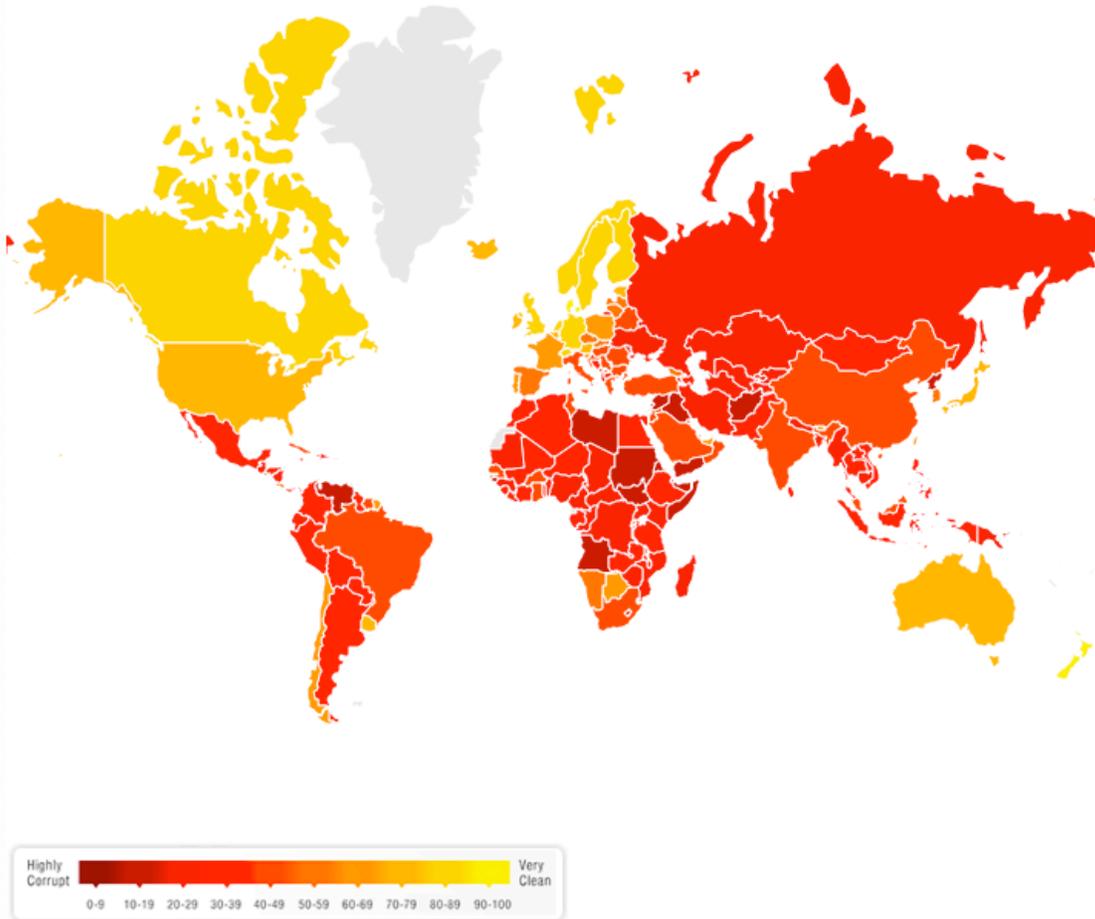
Average Americans may have thousand dollar smart phones and giant 4G TVs, but their financial security and retirement prospects have waned precipitously. The median savings of 50- to 55-year-old households is a meager \$8,000. That means 50% of U.S. households approaching their retirement years have less than \$8,000 in actual savings.

Where is the money going to come from to pay debt and to shore up looming future liabilities if the U.S. is constantly sending more and more money overseas than is coming in from trading “partners”?

Trading “partners,” now there’s a pleasant euphemism. Partners would suggest there’s an equal give and take. Commerce Secretary Ross’ “patsy” perspective seems much more real world. How do we know?

The 2016 Corruption Perceptions Index follows, where the yellow means “very clean” and dark red means “highly corrupt.” ([Click here](#) for a larger view.)

CORRUPTION PERCEPTIONS INDEX 2016



Just look at the map. Which countries look like they play fair and nice? And which countries look like they will say and do anything to game the system? Who is the likely patsy? Who is likely taking advantage of whom?

And yet we hear from Secretary of Commerce Ross:

“Nobody is trying to ignite what Smoot-Hawley did during the Depression,” Ross said, referring to 1930 legislation that slapped tariffs on nations shipping goods to the U.S. and arguably made the era’s financial downturn even worse. Rather, the Trump administration is trying to fix the “incorrect policy decisions that our government and others made earlier in the process,” he said.

The U.S. is still playing nice, still trying to do the right thing for the world, while the globalists seem to think the U.S. needs to continue subsidizing the rest of the world’s prosperity.

French President Macron at Davos:

"Let us not be naive, globalization is going through a major crisis and this challenge needs to be collectively fought by states and civil society in order to find and implement global solutions."

Is Macron the French president or president of the world? Who elected him? Whose interests do you think he has at the top of his list? U.S. or French?

How about Jack Ma, Chairman of Alibaba Group Holdings, one of the largest technology companies in China:

"It's so easy to launch a trade war, but it's so difficult to stop the disaster of this war. Don't use trade as a weapon, use trade as a solution to solve problems."

Thanks, Jack. China has already been using trade as a weapon, subsidizing their industries and stealing other country's intellectual property.

So, why does the current administration have an America First policy position? Maybe because the country finally has some leadership in government with business experience, people who understand a balance sheet and how to project our economic prospects forward. What they see isn't pretty. What they see is the average Joe U.S. citizen subsidizing global prosperity.

The current rhetoric over a trade war and the global economy sort of reminds me of what flight attendants say every time an airplane is about to take off. "In case of an emergency, if the oxygen masks drop down, put yours on first before you put them on your children." Maybe it's best to ensure the parent of globalization doesn't die. If so, the children will as well.

A handwritten signature in black ink on a light gray background. The signature is cursive and appears to read "Doug".

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