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As Americans Stop Buying, Trade Deficit Declines

By [EDMUND L. ANDREWS](#)

WASHINGTON — Dire warnings about the need for Americans to save more and spend less didn't work. Nagging China, Japan and Germany to buy more American products didn't work.

No matter how much economists and political leaders warned about huge global trade imbalances and the astronomical foreign debt of the United States, American consumers kept buying more and borrowing more from the rest of the world.

Until the [financial crisis](#), that is.

In a striking case of shock therapy, global trade imbalances have declined by almost half since the financial system nearly collapsed one year ago.

On Friday, the [Commerce Department reported](#) that the trade deficit of the United States shrank by another \$1.2 billion in August, to \$30.7 billion. American exports edged up to \$128.2 billion and imports declined slightly to \$158.9 billion.

But the real news is the change from one year ago.

For the first eight months of the year, the United States trade deficit with China is down by about 14 percent or \$20 billion, compared with one year ago. The nation's trade deficit with Japan has shrunk by almost 20 percent, and its deficits with Mexico, Canada and the [European Union](#) are down more than 40 percent.

The huge shift stems mainly from the staggering collapse in trade. With credit markets frozen and Americans facing the highest unemployment in more than 30 years, the United States suddenly stopped shopping overseas at anywhere near the volumes that had become normal.

And even though the economy is beginning to recover, economists say the global trade shift still has some distance to go. The value of the dollar, which has been falling sharply, will make imports more expensive and restrain American appetites for at least the next year.

All of which raises a question: is the free market suddenly imposing the kind of brutal rebalancing that global political leaders, for all their pronouncements and handwringing, never came close to achieving?

Last month, [President Obama](#) and leaders from the [Group of 20](#) large economies agreed to cooperate on reducing global imbalances. The United States would try to increase saving and get its fiscal house in order. China and other export-dependent countries would try to save less and spend more at home. The leaders even agreed to submit to evaluation of each other's policies, with help from the [International Monetary](#)

Fund.

At least for the moment, the financial crisis has delivered swifter and more sweeping change than policy makers could hope to accomplish.

It isn't just in the United States, either. China's trade surplus with the rest of the world has plummeted to less than 6 percent of its gross domestic product, from 11 percent.

But economists say the change could prove fleeting.

"Officials cannot just sit there and do nothing, and expect the rebalancing to continue," said C. Fred Bergsten, director of the Peterson Institute for International Economics.

Indeed, American consumers are already showing hints of their old fondness for shopping rather than saving. The household saving rate shot up from less than 1 percent before the crisis to more than 5 percent this spring, but it has since slipped back to less than 4 percent. In the early 1990s, American families were saving about 7 percent of their income — and even that was less than in much of Asia and Europe.

Simon Johnson, a professor of economics at the [Massachusetts Institute of Technology](#), said it was normal for a country's trade balance to improve during an economic downturn. "The adjustment we're seeing right now could be the harbinger of a real adjustment in saving and spending, but we don't know yet," Mr. Johnson said. "People in emerging markets want to run big surpluses, because they want to build up reserves."

But the increased prudence of American consumers may be less important than whether the United States comes to grips with its enormous government budget deficits. The [federal budget](#) deficit is expected to hit \$1.4 trillion this year, and to remain above \$1 trillion for at least the next several years. Making matters worse, the nation's baby boomers are expected to drive up spending on [Medicare](#) and [Social Security](#), causing government deficits to balloon for decades unless the programs are changed.

Mr. Bergsten, in a forthcoming paper in *Foreign Affairs* magazine, warned that the budget deficits were likely to create a vicious circle that aggravated the nation's trade deficits and foreign indebtedness. Huge deficits, Mr. Bergsten said, would actually drive up the value of the dollar because the government would be forced to offer higher interest rates to keep foreign investors buying [Treasury securities](#). Higher interest rates would cause the value of the dollar to climb, which would make American products more expensive in world markets.

Kenneth S. Rogoff, an economist at [Harvard University](#) and co-author with Carmen M. Reinhart of "This Time Is Different: Eight Centuries of Financial Folly," said he had fully expected the dollar to plunge in value, at least initially, and to at least temporarily stifle American appetites. But he said the effect might be only temporary.

"Countries typically see a big rise in net exports after a crisis, much as the U.S. has," he said. "However, it is very unclear if the U.S. can sustain the improvement as markets normalize."