Wall Street Journal (Feb. 21, 2017)

A Trump Statistical Trade Trick

[Editorial]

The Trump Administration's trade policy still isn't clear, but one worrying sign is an effort to recalculate U.S. trade flows to show larger deficits. This trick, which is borrowed from the political left, deserves to be hooted down as an attempt to manipulate statistics to assist bad economic policy.

The Journal reported this weekend that Trump officials have asked employees at the Commerce Department and Office of the U.S. Trade Representative to calculate U.S. trade flows in a way that exaggerates the overall U.S. trade deficit, overstates deficits with countries such as Mexico, and even creates the illusion of deficits where none exist. Some bureaucrats complied, the Journal wrote, "but included their views as to why they believe the new calculation wasn't accurate."

The dissenters are right. The requested method applies fuzzy math to the treatment of "re-exports," or goods that arrive in the U.S. as imports but leave unchanged as exports. Think of a car dealer in Buffalo that imports 100 BMWs from Germany but sells 50 across the border in Toronto. The proper way to book this transaction in official data, as the U.S. has for decades, is to record that 100 cars arrived as imports and 50 left as exports, for a net of 50 imports.

The Trump team wants to exclude the value of re-exports from the U.S. export total because these goods aren't manufactured in the U.S., while keeping them on the import side of the equation. So official data would suggest that 100 cars arrived as imports and zero left as exports, for a net of 100 imports. This is single-entry trade bookkeeping.

The Journal story doesn't specify where the new data-calculation request originated, but with various Trump appointees awaiting Senate confirmation, the top trade official is Peter Navarro, head of the new White House National Trade Council. An economist who taught at the University of California Irvine, Mr. Navarro has long railed against trade deficits as if they represent theft and job destruction. But imports raise living standards for consumers and imported components are essential for U.S. manufacturers to stay competitive.

Trade statistics are also a lousy guide to economic policy. Trade surpluses are hardly a sign of economic health, as the U.S. ran surpluses during the Great Depression. The U.S. has run trade deficits for decades during periods of prosperity, and deficits will inevitably grow if

President Trump achieves his goal of attracting more investment to spur faster U.S. growth. A trade deficit is, by accounting definition, the flip side of an investment surplus.

Mr. Navarro briefed lawmakers on Capitol Hill last week, and the Journal reports that the misleading new trade data "were to be presented to members of Congress." That's appropriate because the abuse of re-export numbers was pioneered on the Hill by protectionists such as Democratic Representative Rosa DeLauro. She claimed in 2015 that the U.S. trade balance with the 20 nations with which it has a free-trade agreement, including Mexico and Canada, was a $105 billion deficit.

Yet without cooking the books on re-exports, the U.S. had a $10 billion surplus with those countries. The Obama Administration's U.S. Trade Representative Michael Froman and Commerce Secretary Penny Pritzker rightly blasted Ms. DeLauro's claims as inconsistent "with the economic reality of trade and widely accepted and applied international guidelines for calculating trade balances." (See "Trade Deficit Myths," June 9, 2015.)

The Trump team's trade battles will be contentious enough without trying to deceive Congress and the public with bogus data. As Trade Representative nominee Robert Lighthizer and others come up for confirmation, lawmakers should scrutinize the Administration's trade measurement intentions before this deception is entrenched.