Trade Offs

There's a familiar ritual in U.S. economic policy: a growing trade deficit prompts outrage, politicians reach for tariffs, and foreign nations are accused of manipulation. What goes unexamined is whether the trade deficit is a problem we're willing, or even able, to solve.

At the center of this contradiction is the U.S. dollar. The same system that lets America borrow cheaply, run fiscal deficits without crises, and exerts geopolitical leverage is also what keeps the dollar strong and trade deficits wide. We like the benefits of dollar hegemony but dislike the side effects.

A Currency Built for Demand

The dollar is strong because the world needs it. Nearly 90% of global foreign exchange involves the dollar. Commodities are priced in it.[1] Central banks hold it in reserve. This demand is structural, not temporary.

Because of this demand, the U.S. can consume more than it produces. We run current account deficits year after year, and the world keeps buying our bonds. If the rest of the world sends us capital, we will, by definition, import more than we export. The math is not ideological.

Yet we behave as though tariffs or reshoring can solve this. You cannot restrict your way to trade balance while maintaining a fiscal deficit over 6% of GDP and savings rates near all-time lows. That's not inconsistency — it's denial.

Trade Deficits Are a Feature, not a Bug

We have a trade deficit because we built a system that incentivizes one. Since the early 2000s, the U.S. has operated the world's dominant consumer market and most liquid capital markets. As a result, capital flows toward U.S. assets, strengthening the dollar and suppressing exports while giving us unmatched borrowing power.

There is no version of this system where the U.S. keeps the benefits without the liabilities. If we want global demand for dollars, we must export them via deficits. If we want a weaker dollar, we'd need to reduce fiscal deficits and raise savings, which has never been politically viable.

Instead, we try proxies: tariffs, restrictions, subsidies. Unless paired with changes to public borrowing and private saving, they will shift the composition of the trade deficit, not its existence.

Foreign Governments Aren't the Problem

The belief that other countries are gaming the system—China weakening the renminbi, Germany hoarding surpluses, Japan's yield curve control—misses the point: global dollar demand exists because of what countries learned from crises.

After the 1997 Asian Financial Crisis, emerging markets adopted self-insurance through dollar reserves. They weren't undermining the U.S.—they were avoiding another IMF intervention. Central banks hold over $7 trillion in U.S. Treasuries because they have no better option. Until that changes, the imbalance remains.

Be Careful What You Wish For

Calls to "de-dollarize" the global financial system ignore the enormous advantages the U.S. gets from this setup. The ability to borrow in your own currency, at low cost, in size, from foreign buyers, is rare. The

[1] Data provided by Bank for International Settlements.

ability to weaponize the financial system through sanctions and capital access is even rarer. And the ability to run persistent fiscal deficits without facing an FX or rates crisis is essentially unique.

Yes, these privileges come with side effects: weak tradable sectors, exposure to foreign supply chains, and political backlash against deindustrialization. But the idea that this is a one-sided deal where America always loses is ahistorical. We've been able to fund wars, recoveries, and bailouts at an unmatched scale precisely because of the role the dollar plays globally.

To suggest we want out of that system because the trade balance looks unflattering is like suggesting an Olympic sprinter should stop lifting weights because their jeans don't fit right.

What Might Actually Work

If the goal is to reduce external imbalances, the fix is macroeconomic, not mercantilist. Fiscal consolidation, higher household savings, and investment-led growth would all move the needle. None are politically easy. All are economically sound.

Short of that, the U.S. could pursue targeted interventions to support sectors critical to national security or technological leadership. But even then, it should do so with a clear understanding of tradeoffs. Subsidies that bring chip production onshore may improve resilience, but they won't close the trade gap unless accompanied by broader structural shifts.

The more we attempt to micromanage the trade balance through punitive trade policy, the more we risk inviting retaliation or fragmentation of global financial flows, without actually solving the problem we think we're addressing.

Final Thoughts

The U.S. built a global financial system in which its own currency is the foundation. That system allows for fiscal expansion, geopolitical leverage, and borrowing capacity that no other country enjoys. But it also creates an ongoing imbalance in goods trade. One we try to fix every decade with tools that don't address the underlying issue.

Today's industrial policy revival and trade war instincts reflect a desire to reclaim economic self-determination. But unless these efforts are paired with structural changes to savings behavior, fiscal policy, and capital allocation, the outcomes will mirror the past: we'll shift who we import from—not whether we import.

The world isn't ripping us off. They send us cheap goods, and we send them pieces of paper we can reproduce ad infinitum. The real problem isn't the trade deficit. It's America's abysmal allocation of the wealth it has accrued and its failure to invest in its people.

Fixing that requires a different kind of intervention—one aimed inward, not outward.

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