

The theory of global imbalances:
mainstream economics as apologia for globalization

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Table 1. A decomposition of the US goods trade deficit in 2007 (\$ billions).

	\$ billions	Percent (%)
Total	-808.8	100
Pacific Rim	-372.3	46.0
China	-258.5	32.0
Canada & Mexico	-143.0	17.7
European Union	-110.2	13.6
OPEC	-117.2	14.5
Other	192.4	23.8

Source: Census Bureau.

Figure 1. The mainstream approach to trade and global imbalances.

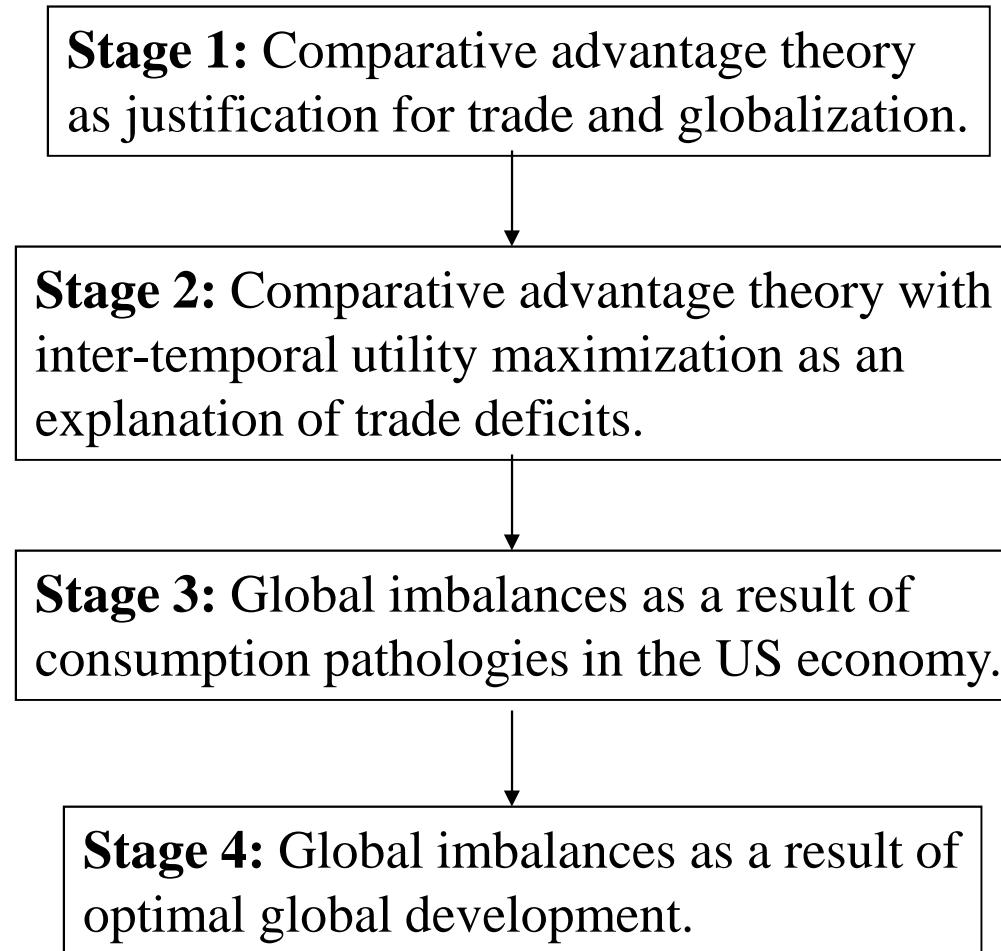
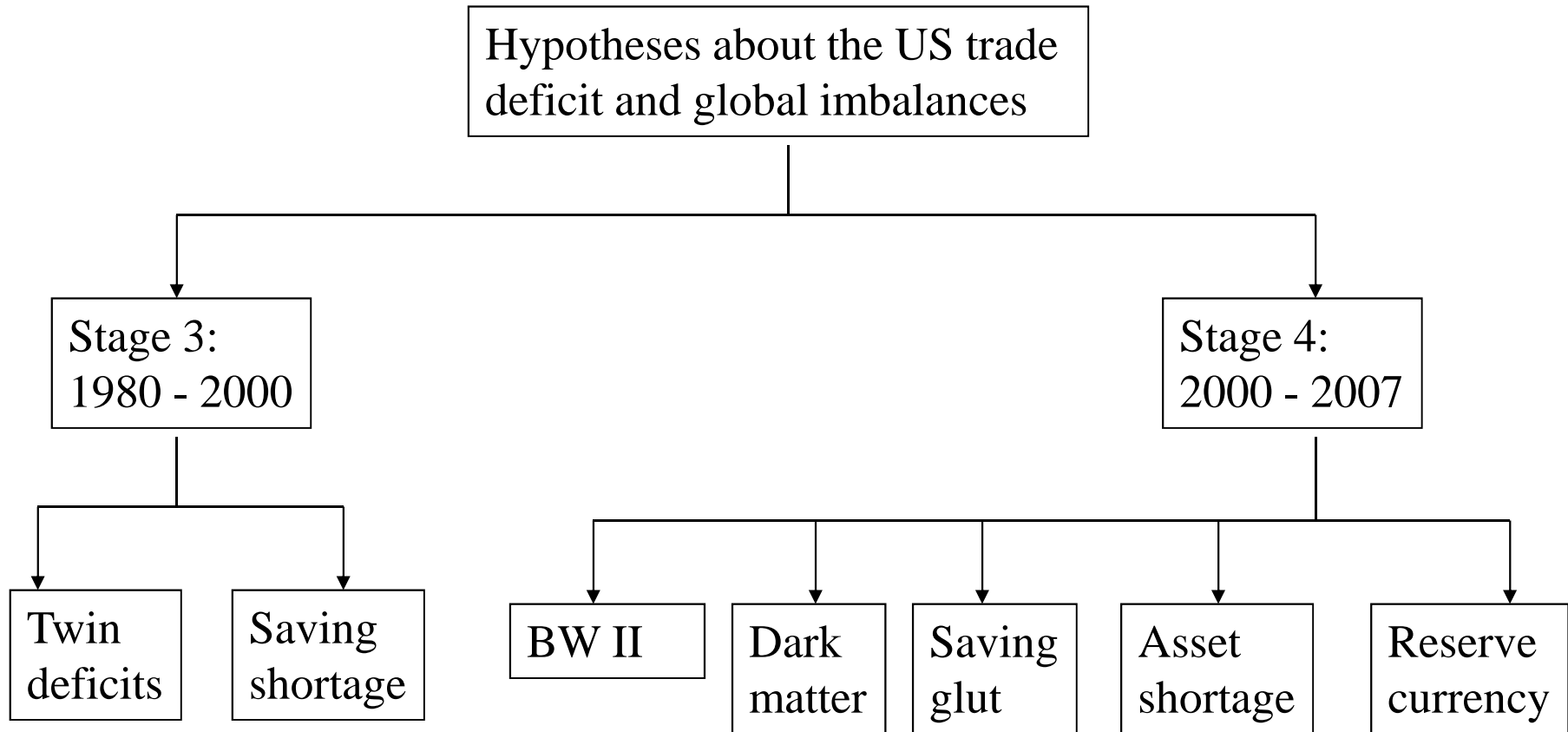


Figure 2. Mainstream explanations of the US trade deficit and global financial imbalances.



Critique of BW II hypothesis

- (1) No evidence for its core argument.
- (2) No empirical grounds for an analogy between current economic patterns and the patterns that characterized the BW I era (1945-1971).

Critique of saving glut hypothesis

- (1) Loanable funds theory misrepresentation of China as financing the US trade deficit.
- (2) Misunderstanding of the microeconomics of global production.

Figure 3. The structure of transactions governing U.S. – China/East Asia trade.

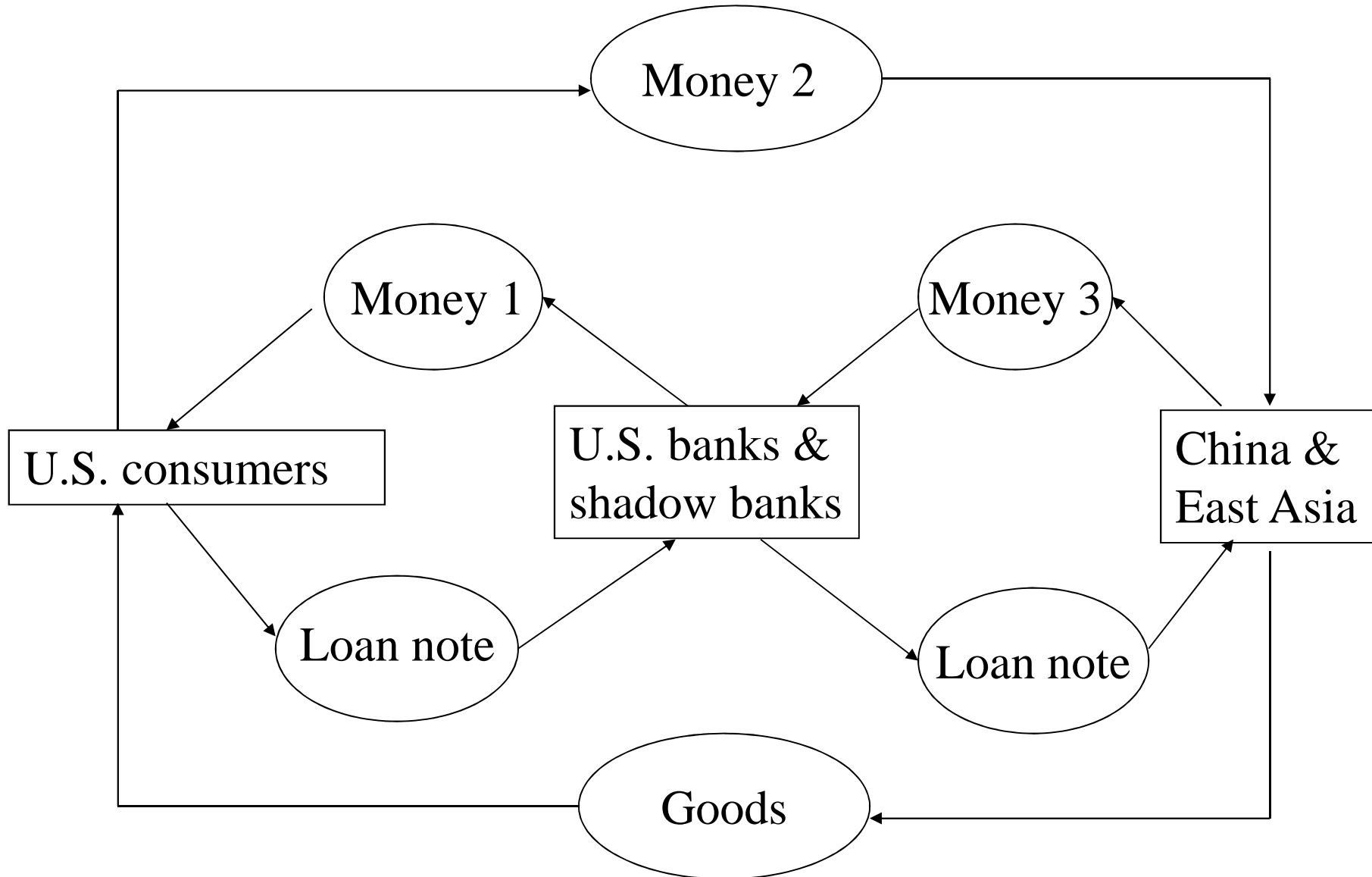


Table 2. Decomposition by firm ownership of the structure of Chinese exports in 2005.

Source: Manova and Zhang, 2008

	All firms	Foreign-owned	Joint ventures	Private domestic	State-owned
Exports	100%	50.4	26.3	13.1	10.3

Critique of asset shortage hypothesis

- (1) Misunderstanding of the microeconomics of global production.
- (2) Other better explanations of the increase in asset prices.
- (3) Thesis of asset shortage is doubtful.

Critique of reserve currency hypothesis

- (1) Fails to recognize the new structure of global production.
- (2) Fails to recognize the problem has been long-running and began to develop in the 1980s.
- (3) Cannot explain reserve accumulations far beyond what can be economically justified.

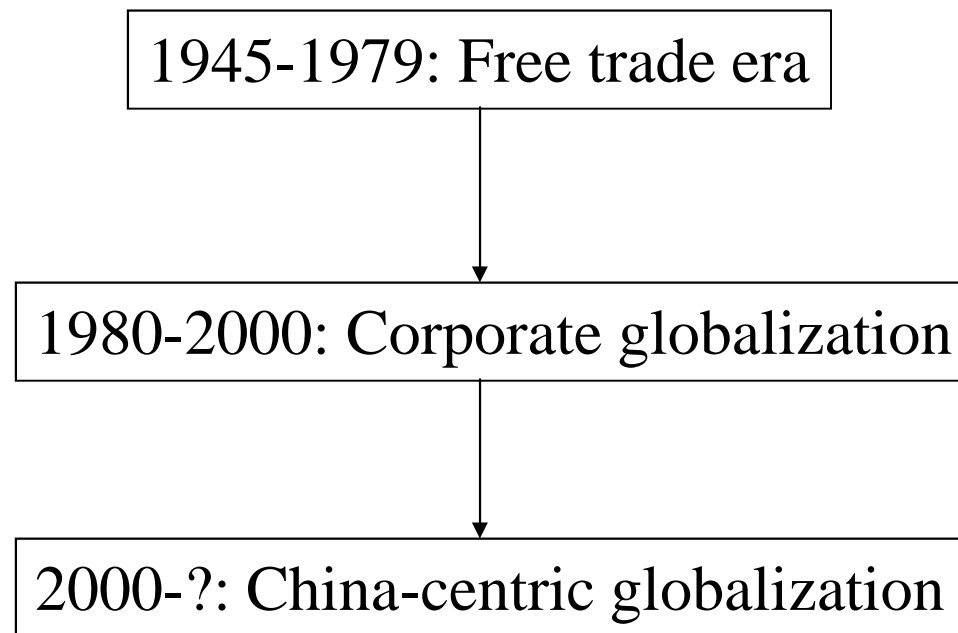
The structural Keynesian
explanation of global imbalances

Table 3. The U.S. goods & services trade deficit by business cycle peaks, 1960 – 2007.

Sources: Economic Report of the President, 2009 and author's calculations.

Peak year	Trade deficit (\$ millions)	GDP (\$ billions)	Trade deficit/ GDP (%)
1960	3,508	526.4	0.7
1969	91	984.6	0.0
1973	1,900	1,382.7	0.1
1980	-25,500	2,789.5	-0.9
1981	-28,023	3,128.4	-0.9
1990	-111,037	5,803.1	-1.9
2001	-429,519	10,128.0	-4.2
2007	-819,373	13,807.5	-5.9

Figure 4. The evolving political economy of the international economy.



Barge economics:
why globalization is different from free trade

The evolution of neoliberal globalization

- **Stage 1** = NAFTA in 1994.
- **Stage 2** = Strong dollar policy after East Asia financial crisis of 1997.
- **Stage 3** = China PNTR in 2000.

Table 4. US goods trade balance with Mexico before and after NAFTA (\$ billions)

Source: Census Bureau.

1991	1992	1993	1994	1995	1996	2000	2005	2007
2.1	5.4	1.7	1.3	-15.8	-17.5	-24.5	-49.7	-74.6

Table 5. US goods trade balance with Pacific rim countries (\$ billions).

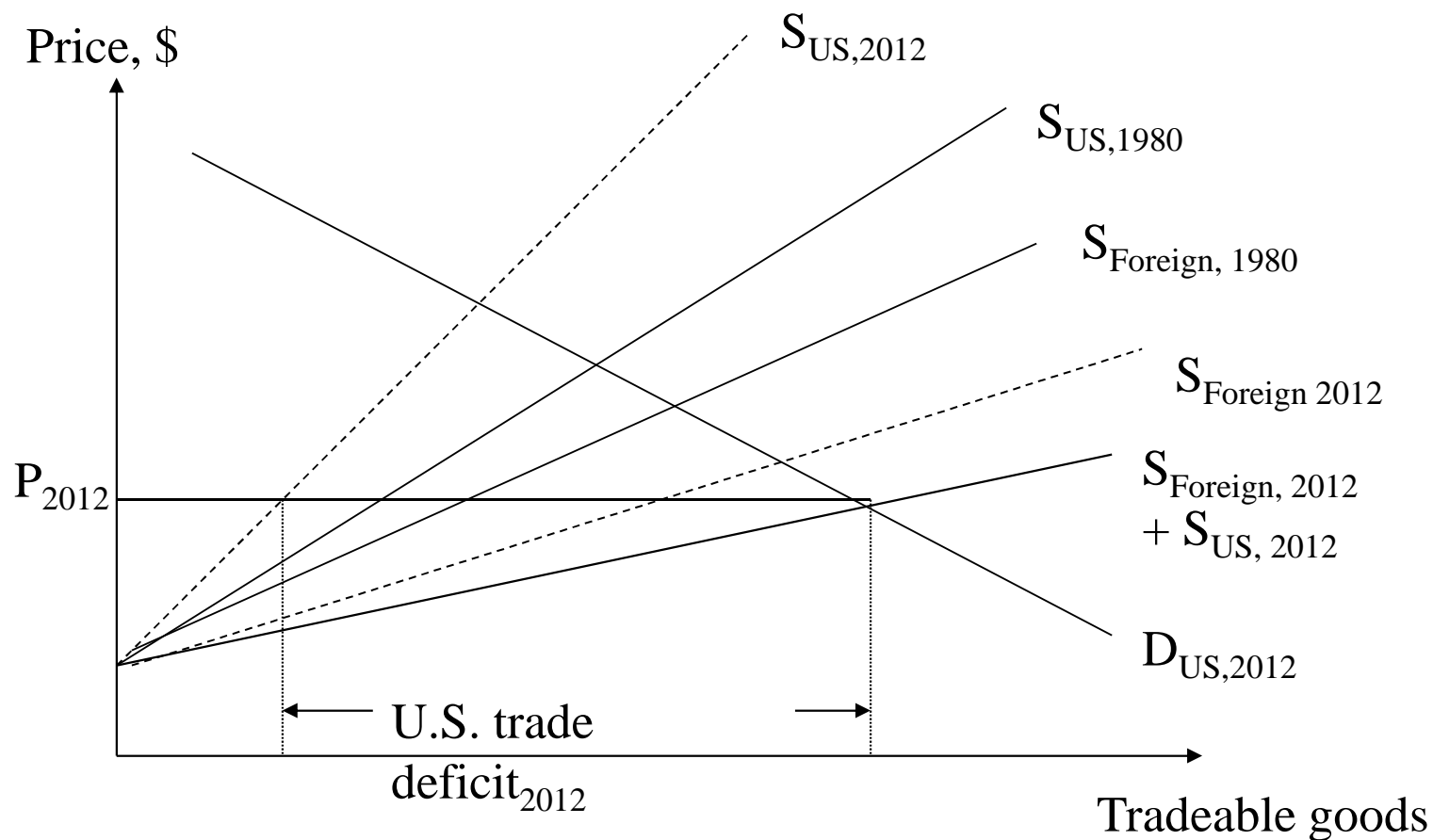
Source: Census Bureau.

1995	1996	1997	1998	1999	2000
-108.1	-101.8	-121.6	-160.4	-186.0	-215.4

Table 6. US goods trade balance with China before and after
PNTR (\$ billions)
Source: Census Bureau.

1998	1999	2000	2001	2002	2003	2004	2005	2007
-56.9	-68.7	-83.9	-83.1	-103.1	-124.1	-161.9	-201.5	-256.2

Figure 4. The effect of globalization on the global supply of tradeable goods to the U.S. and on U.S. demand for and supply of tradeable goods.



Political economy:
the US and neoliberal globalization

Political economy:
EM economies and neoliberal globalization

Conclusions