Flash Economics

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Which economic model would be the most favourable for the United States?

The United States enjoy comparative advantages in the production of services (IT services, financial services) and research and development, but not in the production of industrial goods. This can be seen in the state of foreign trade (in services and goods) and production.

Protecting itself against the export of goods from other countries by introducing tariffs is therefore an ineffective strategy for the United States, which will only result in higher domestic prices for goods. An effective strategy for the United States would be:

- Maintaining free trade in goods and services;
- Developing the US's technological lead and financial clout;
- Using capital inflows from non-residents attracted by the US' technological lead and financial clout to finance the trade deficit in goods.

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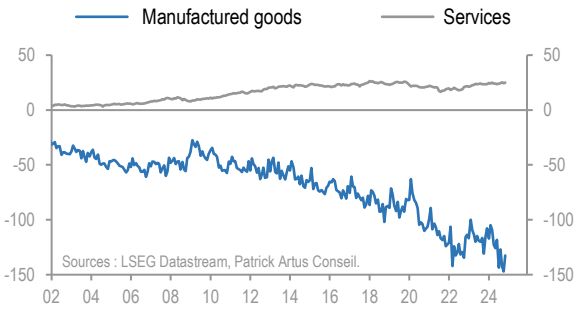
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The United States enjoy comparative advantages in the production of sophisticated services, not industrial products

The United States enjoy a comparative advantage in services (financial, technological, R&D-related) and not in manufacturing, as evidenced by:

- **The very large trade deficit in manufactured goods and the trade surplus in services** (**Chart 1**), which is essentially the result of the surplus in financial services, IT services and patent royalties;

Chart 1
United States: Trade balance in manufactured goods and services (monthly data, EUR bn)



- **The small weight of manufacturing in the economy** (**Chart 2**).

Chart 2
United States: Real value added in manufacturing (as % of real GDP)



As a result, protecting itself from competition from other countries through tariffs is an ineffective policy.

Taxing imports of manufactured goods from the rest of the world is an ineffective policy for the United States.

Since the US have no comparative advantage in the production of manufactured goods, imposing tariffs on imports of these products:

- **Will not generate any significant relocation of production to the United States**;
- **Will simply drive up the price of imports and the domestic prices of manufactured goods**;
- And will therefore reduce the purchasing power of American consumers.

Summary: What would be an effective strategy given the nature of productive specialisation in the United States?

An effective strategy, given that the United States enjoys comparative advantages conducive to the production of sophisticated services rather than manufactured goods, would be:

1. **To uphold free trade in goods and services**;
2. **To develop the United States**' lead over its competitors in finance and information and communication technologies;

This is the case, for example, in artificial intelligence (AI), with private investment in AI reaching $67 billion in 2023 in the United States, compared with $11 billion in Europe (European Union and United Kingdom) and $7.7 billion in China.

As far as finance is concerned, 60% of the 128,000 billion dollars managed by asset management companies are located in the United States.

3. **To use long-term capital inflows from non-residents** attracted by the development of finance and the technological lead of the United States (**Chart 3**) to finance the deficit in the balance of trade in goods.

Chart 3
United States: Direct and portfolio investment inflows (as % of nominal GDP)



(*) Direct and portfolio investment inflows are capital inflows leading to an increase in liabilities (in this case for the United States) and therefore have a positive sign.

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