



## The Daily Dish

# Trade Deficit Lessons

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Since life is just a long lesson in economics – bet you didn’t know that – it was gratifying to see the nation’s newspapers collaborating on yesterday’s lesson plan on trade deficits. Bloomberg had a piece headlined [Trump’s Tariffs Send US Trade Deficit With China to 21-Year Low](#), which featured:

*The shortfall with China stood at about \$202 billion last year, according to data published Thursday by the Commerce Department. Canada’s surplus with the US also narrowed as shipping was upended despite the USMCA trade deal Trump negotiated with the country’s North American neighbors in his first term.*

Meanwhile, *The Wall Street Journal* trumpeted [America Imported a Record Amount Last Year Despite Seismic Trade Policy Changes](#), which noted:

*Imports to the U.S. grew to a record high in 2025, leaving the trade deficit little changed despite steep Trump administration tariffs aimed at closing trade gaps.*

*The nation’s trade deficit—the gap between imports and exports in both goods and services—was \$901.5 billion last year, slightly smaller than the \$903.5 billion deficit recorded in 2024, the Commerce Department said Thursday. The small change shows America’s role as a heavy net importer remains intact, at least thus far, despite seismic policy shifts during the year.*

The administration, and evidently the president himself, has always had an obsession with bilateral trade deficits such as that with China. As the Bloomberg article shows, it is possible to shrink that deficit through the use of tariffs (and other trade policies). But *The Wall Street Journal* finding reminds us that shrinking the China deficit is futile in

the larger picture. Despite the tariffs - and many, many other tariffs - the overall balance of trade remains roughly the same.

At this point, Eakinomics is assuming a sufficient caffeine saturation of the bloodstream to support a little morning algebra. Note that if a nation has a total production of  $Y$ , it can sell it as consumption goods  $C$ , investment goods  $I$ , government spending  $G$ , or net exports  $X-M$  (exports minus imports). Alternatively, the national income can be used to consume goods  $C$ , save  $S$ , or pay taxes  $T$ .

Collecting these two thoughts on the left and right yields:

$$C + I + G + (X-M) = Y = C + S + T$$

Noticing that  $C$  cancels from both the left and the right:

$$I + G + (X-M) = S + T$$

And re-arranging gives:

$$M-X = (I-S) + (G-T)$$

Notice that these are *identities* that must add up no matter what the particulars of tax, spending, tariff, and other policies may be. And the bottom line is telling us that the trade deficit ( $M-X$ ) will be matched by the amount by which domestic investment exceeds domestic saving ( $I-S$ ) and the federal budget deficit ( $G-T$ ). These latter two deficits will require borrowing from abroad, so a capital inflow surplus will match the trade deficit.

But the larger lesson is that if the national patterns of investment, saving, and deficits don't change, you could levy two or three Trumpians of tariffs and it wouldn't change the trade deficit. It would re-arrange the deck chairs dramatically or make the deficit the difference between two small numbers instead of two large numbers, or both. But the claim that you can declare the trade deficit to be an emergency and tariff your way out of it is simply a fantasy.

Now, Eakinomics is all about fantasies - you should hear the one about Schumpeter - but they are a terrible way to do policy. And don't work.