

Seeing Red About the Sea of Red Ink

By Victor Davis Hanson

I want to talk about red ink.

Red ink has manifested in [trade deficits](#), [budget deficits](#), and [national debt](#). They're all connected, but here's my point: We've been warned that trade deficits of the last consecutive 50 years really don't matter because we grew so much in our gross domestic product and our per capita income.



But there were other factors that allowed the trade deficits not to matter as much, because we were not running huge budget deficits, nor had national debt climbed to the

present levels. As well as, we weren't the beneficiaries of a tech revolution in Silicon Valley. And we were not yet beneficiaries of being a net oil producer, rather than importer.

But, let me get to my point. In 2000, I'm just taking an arbitrary year a quarter-century ago, Rep. [Nancy Pelosi](#), Sen. [Chuck Schumer](#), and other Democrats made an impassioned case that it was unsustainable to have a \$100 billion deficit with China, in particular, and to run up a \$370 billion trade deficit in general. That was over 3.6%, 3.7% of GDP.

In 2025, despite the spectacular growth in GDP, we're running

a \$300 billion, roughly, trade deficit with China. And a \$1.1 trillion overall trade deficit with the rest of the world, including China. That's well over 3%—that's up into the 4%.

What am I getting at?

At the time that they were worried about this, a quarter-century ago, we had prominent economists who said that if you got over 3% of your trade deficit, you were too deeply leveraged by foreign influences that could buy property, too much bonds they held of American debt, they would get influence, et cetera.

Warren Buffett in 2003 warned us in his annual letter that was published in Fortune magazine. As late as 2018, Jason Furman, the Obama economist, warned in The Wall Street Journal, of all places, you don't want to go over 3% of GDP with your annual trade deficits.

So, while we were doing this for the last quarter-century, and ... and we're up to 4% of GDP in our trade deficit, look at the budget—just to go back to that year—25 years ago, we were running—I can't believe it—a \$236 billion surplus. This was the grand [Rep. Newt] Gingrich, [then] speaker of the House, [and the-President] Bill Clinton budget that was still in effect. And we were adding to our national wealth by 2.4%-plus of GDP.

Now, we're running a \$1.8 [trillion] to \$2 trillion annual deficit. And that is a minus-6.4% of GDP. That has an influence on the trade deficit.

And in addition to the debt, the debt was \$5.6 trillion a quarter-century ago. That was high, but it was still only about 32%, 33% of GDP. Today, a quarter-century ... later, the national debt is \$37 trillion. That's 125% of GDP.

What is my larger point?

Trade deficits don't matter as much if your national debt is 35% of GDP or you're running budget deficits that are manageable. But they do matter when you've got 125% of GDP, with your total debt—your \$37 trillion debt—which is 125% GDP, and you're running \$2 trillion trade deficits.

What has saved us In the past, we were the world's reserve currency. ... And we had 40% of the world's market. People wanted to get in here, so they were willing to carry paper for us. But when you've got \$37 trillion, that's very different than \$5 trillion, just a quarter-century ago.

We had an oil revolution with fracking and horizontal drilling. We went from paying an exorbitant amount of money to the Middle East and elsewhere to being really a net exporter, if you look at all the ways that we produce oil versus the oil we buy. And of course, we had \$9 trillion in market capitalization that flowed into Silicon Valley, to Apple, Google, and these other start-ups that became mega and global corporations.

My final point: Trade deficits matter now. We are being crushed by budget deficits, national deficits, and trade deficits. And the people who warned us about this a quarter-century ago, when we did not have this problem with the national debt or the annual budget debt, were none other than Democratic Congresswoman Nancy Pelosi; Sen. Chuck Schumer; investment guru Warren Buffett; Jason Furman, an Obama economic adviser; and The Wall Street Journal.

So, trade deficits matter. ? We gotta get them down because we have no room to maneuver, given our budget and our national debt.

First published in the [Daily Signal](#)