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Black America's Trade Losses

Economists have a concept that serves as a comparative measure for countries and their interaction: Terms of trade (TOT). Most countries seek to benefit by engaging in international trade, and the TOT is simply a measure of the extent to which the prices of a country's exports (X) exceed the prices of a country's imports (M). Stated differently, a favorable TOT is when the price of a country's exports is higher (rises faster or falls more slowly) than the prices of its imports. If a country has a favorable and improving TOT, then it can produce and sell a smaller volume of exports for a given volume of imports.

While TOT is usually used to characterize `relationships between a country and its trading partners, in this case we want to apply the concept to Black America. As you know, Black America constitutes a smaller nation within the larger US nation. Therefore, it seem reasonable to attempt to measure Black America's TOT relative to the broader US economy. In doing so, we must bend the TOT concept slightly and must make certain assumptions and generalizations. However, our manipulation of the TOT concept is not so egregious as to distort it dramatically or to render the analysis unrealistic.

To perform the analysis, let us use a concept that is based on the TOT, which is called Trade Gains/Losses (TG/L). Without derivation, the following equation is given for TG/L:[1]

Equation 1

$$TG/L = \frac{X - M}{P} - \left\{ \frac{X}{P_x} - \frac{M}{P_m} \right\}$$

Where:

X = exports at current value
M = imports at current value
P_x = the price index for exports
P_m = the price index for imports
P = a price index for some selected numeraire

(P_x, P_m, and P all equal 1 in the reference period).

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[1] The equation is given as part of paragraph 15.185 – 15.192 in the *System of National Accounts 2008* from the European Commission, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations, and World Bank. (2009) New York, NY.

The first term on the right-hand side of Equation 1 represents gains/losses from trade derived from an income perspective (real gross domestic income (GDI) estimated by deflation), while the second, bracketed term represents gains/losses from trade derived from an expenditure perspective (real gross domestic product (GDP) estimated as a volume measure). Equation 1 captures gains/losses from trade as the difference between these two approaches to measuring economic activity.

Now assume that Black America is a country and that we are estimating the TG/L vis-à-vis the broader US nation. Accordingly, we must consider Black American exports (X) to the US (mainly labor) and our Imports (M) from the US (a broad basket of goods and services available in the US). Because Black America is not yet truly a nation with its own prices, let us adopt the following prices for the analysis:

- The US gross domestic purchases price index will serve as our numeraire price index (P);[2]
- Median weekly earnings will serve as the "price" of Black America's exports (P_x) because we export labor to the US economy predominantly, and changes in the price of Black American labor are reflected in Black American median weekly earnings;[3] and
- Given that Black America "imports" what we consume from the US, it seems reasonable to permit the price index for US GDP's personal consumption expenditures (PCE) to serve as the price index for our imports (P_m)—specifically the price for PCE Services.[4]

Now considering Equation 1 generally, we may first conclude that Black Americans have near balanced trade with respect to the US economy. We do not have massive wealth or saving, and we are not extended vast amounts of credit that permit us to consume far beyond our income. Second, the fact that we do not have massive wealth or saving implies that we consume most, if not all, of our income.[5] Therefore, near balanced trade ($X - M = 0$) appears to be a reasonable assumption. Consequently, the first term on the right-hand side of Equation 1 goes to zero.

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[2]This is a reasonable selection given that the US gross domestic purchases price index is somewhat representative of the "exports" and "imports" that are being considered in Equation 1—particularly imports. An ideal or "Geary method" calls for using as the numeraire price index the unweighted average of the export and import price indexes; see a discussion of the proxies for these indexes in the discussion below.

[3]Median weekly earnings is from the US Bureau of Labor Statistics' Current Population Survey (CPS), "Table A-2. Usual weekly earnings of employed full-time wage and salary workers by intermediate occupation, sex, race, and Hispanic or Latino ethnicity and Non-Hispanic ethnicity, Annual Average." The median is preferred over the mean weekly earnings because the former is viewed as being more robust. We obtained the average annual median weekly earnings for Black or African American workers for 2000 and 2015 from the CPS.

[4]Again, this appears to be a reasonable assumption because Black America generally consumes what is broadly defined as US PCE—predominantly PCE Services.

[5] "Table 2100. Race of reference person: Annual expenditure means, shares, standard errors, and coefficients of variation, Consumer Expenditure Survey, 2015" from the Bureau of Labor Statistics reveals that Black American households have disposable income (earnings less taxes) that is slightly less ($38) than total expenditures plus payments to pension and social security funds.

Now for the second, bracketed term on the right-hand side of Equation 1. Again, we must assume that $X \approx M$. Therefore, the value of this portion of the equation is determined by the difference in the value of P_x versus P_m. Keep in mind that P_x is proxied for by Black median weekly earnings, while P_m is proxied for by the PCE price index for Services. Given an increasingly reduced demand for low-cost labor that Black America provides as the US economy has become increasingly sophisticated (which implies a slow-rising or declining price), while PCE Services prices show a moderate growth trend, one can conclude that, $P_m > P_x$.[6] Considering all of this in the context of Equation 1, we conclude that the value of the first term in brackets on the right-hand side of Equation 1 will likely exceed the value of the second term; in other words the value of the bracketed term will be positive. However, the bracketed term is preceded by a negative sign, and so the value of Equation 1 will be negative; i.e., Black America faces trade losses.

A nation (Black America) that experiences trade losses and that has an unfavorable and deteriorating TOT faces bleak circumstances. As the former Prime Minister of Jamaica, Michael Manley, once described it, an adverse TOT places a nation in the position of trying to climb up a downward moving escalator. The nation must work ever harder to remain in the same place—with little hope of advancing.

To reverse the just-described condition, a country (Black America) needs to create circumstances where P_x exceeds, rises faster, or falls more slowly than P_m. How can Black America achieve this outcome?

It is instructive to acknowledge that we have advocated nation formation for Black America. In a new nation, Black Americans will be forced to produce on our own account for our own nation. In due time, potentially, we may produce goods and services for export that reflect higher prices than the goods and services that we import.

Specifically and historically, Black Americans have shown a proclivity to be creative and to invent cutting-edge products that attract great demand.[7] Therefore, given more opportunities to study science and technology in our own nation, we should be able to invent, produce, and export products with high demand and that reflect prices that are greater (rise faster/fall slower) than the import prices that we will face.[8]

Thinking long-term, it seems more reasonable to expect that Black Americans can produce for ourselves a better TOT and trade gains within the context of our own nation

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[6] This conclusion bears weight. From 2000 to 2015, the median value of Black weekly earnings as measured by the Current Population Survey increased 2.0 percent on an average annual basis, while the Bureau of Economic Analysis' PCE Services price index, which represents the majority of Black American purchases (imports), increased 2.6 percent. Notably, the overall PCE price index (Goods and Services) increased 1.9 percent over the period; the price index for Goods increased 0.5 percent.

[7] As examples of Black inventiveness under less than favorable circumstances, consider the work of George Washington Carver, Granville T. Woods, Dr. Charles Drew, Vivien Thomas, and Mark Dean—just to name a few.

[8] It seems reasonable to expect that a Black American nation will produce more scientists and engineers than can be produced in the current US context. Given Black America's inherent creativity, these scientists and engineers should be prolific in their creation of products that summon significant market demand, and that reflect high and rising prices.

than to expect that we can reverse the current TOT that produces trade losses, which we are experiencing in the US today. In the US for the foreseeable future, all we can see is more of the same—Black America being viewed as a pool of surplus cheap labor that carries a declining price. On the other hand, there is potential for a brighter future in a land of our own where we can at least work to improve our TOT and generate trade gains.

BBR
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