Prospects

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The point of view

Trump is right about the diagnosis but wrong about the remedies

Growing global imbalances now pose a risk to global economic and financial stability. These imbalances are reflected in persistent divergences between countries' current account balances, with large deficits in the United States but surpluses in China and Europe. Although they point to divergences in trade balances, **these imbalances act like a mirror, mainly reflecting structural disparities between savings and investment levels.** The global accumulation of these imbalances exposes the financial system to the risk of a crisis in the event of a sudden reversal, as has happened in the past.

Before the 2008 crisis, global excess savings – often referred to as a savings glut – contributed to an across-the-board decline in interest rates. This environment encouraged undue risk-taking as well as the excessive accumulation of debt, driven by a wave of unbridled financial innovation intended to push back the traditional limits of borrowing. This mechanism fuelled huge real estate and credit bubbles, which were notably at the heart of the subprime crisis. The roots of the eurozone sovereign debt crisis also lay in imbalances within the zone, with southern European countries building up large external deficits financed by excess savings in northern European countries looking for lucrative investments. This model, built on growing imbalances, fell apart when these capital flows came to a sudden stop amid a climate of increased distrust towards heavily indebted countries, Greece being a case in point.

It is thus critically important to identify the specific causes of each country's external imbalances so they can be addressed with minimal disruption.

From this perspective, **Donald Trump, long preoccupied – not to say obsessed – with the US trade deficit, appropriately diagnosed it as an anomaly to be corrected**. However, he is mistaken about the remedies: protectionism and tariff barriers will do nothing to resolve the US savings deficit that is behind the country's trade imbalance. There is simply no denying it: Americans are living beyond their means. Consumers are overspending while the government deficit deepens. **This combination of low private savings and high public dissaving leads to a structural savings deficit whereby the country is unable to fund its investments**, thus chronically fuelling its external deficit. Rebalancing the external accounts means reducing the public deficit – a direction diametrically opposed to the one taken by Trump with his One Big Beautiful Bill Act and its huge tax cuts. Any deepening of the public deficit will worsen external imbalances and thus entail greater reliance on foreign savings.

On the other side of the looking-glass, China has a large current account surplus as a result of its export-led economic model, supported by structurally high private savings. In the short term, with consumer spending weakened by the real estate crisis, Chinese growth continues to depend on external demand. Looking further ahead, putting the model on a balanced and sustainable footing will require boosting domestic consumption, supported by an increase in social safety nets and public services, so as to reduce the need for precautionary savings. This shift to a more self-sustaining and independent growth model should help shrink external imbalances and reduce excess savings to be invested in foreign markets.

The eurozone is the other major region with persistent external surpluses, mainly driven by Germany's large trade surpluses. While private savings are plentiful and budget deficits are generally under control (except in France), the eurozone is mainly afflicted by a lack of investment and innovation, making it vulnerable in the face of Chinese and US strategic ambitions. If it is to stay in the race for power and regain its strategic autonomy, Europe must invest heavily not only in the defence and energy sectors but also in digital infrastructure, cutting-edge technologies and the industries of the future. In this regard, Germany's unprecedently large stimulus plan could kick-start a rebalancing by putting domestic savings to work in investments targeted at reinventing its economic model. At the European level, beyond the idea of mutualising future debt, the creation of a savings and investment union appears essential if the European Union is to finance collective investment efforts from its own funds rather than seeing its capital flood into US markets.

This interplay between savings surpluses and deficits appears to offer a logical or coherent explanation for the persistence of global imbalances. Donald Trump would nevertheless be well advised to be very careful how he handles the United States' creditors, who, faced with his threats of intimidation and extortion, could decide to prioritise rebalancing their internal finances over continuing to fund US debt. That kind of financing freeze would force the US to make painful adjustments, not without risks to global financial stability.

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