

My Barnes and Noble Trade Deficit

To my vast delight, a Barnes and Noble superstore has arrived in Pittsford, New York, about a mile from my home in the neighboring town of Brighton. I shop at Barnes and Noble several times a week—mostly for books, sometimes for music, occasionally for software, and nearly always for coffee.

My trade deficit with Pittsford has grown explosively since Barnes and Noble arrived. In other words, I spend more money in Pittsford than I did before. A trade deficit is the amount you spend in a given place minus the amount you earn there. I don't earn any income in Pittsford, so my trade deficit is equal to the amount I spend.

I've been thinking about trade deficits because I picked up the local newspaper this morning and read an op-ed piece about the U.S. trade deficit with Mexico. It says that pre-NAFTA, the United States had a trade *surplus* with Mexico—the average American earned more in Mexico than he spent there. (Producing goods for sale to Mexicans counts as “earning in Mexico”; buying goods made by Mexicans counts as “spending in Mexico.”) Today the opposite is true: the United States has a trade deficit with Mexico, and it's growing.

According to the op-ed piece, that's proof that the average American was better off without NAFTA. But the identical logic “proves” that I was better off without Barnes and Noble. Not only is the conclusion false; it's the exact opposite of the truth. When people take advantage of new opportunities to buy things they want, it usually makes them happier.

The truth is that *any* change in our trade position with respect to Mexico—in either direction—is evidence that free trade has been good for Americans. My neighbor got a job at the new Barnes and Noble. His trade *surplus* with Pittsford grew, just like my own trade *deficit*. In both cases, the changes meant that our lives had gotten better.

The same analogy illustrates another point: although NAFTA-induced *changes* in the U.S.-Mexican trade deficit are evidence of improvements, the actual *level* of the trade deficit means virtually nothing. If Barnes and Noble had located in the town of Penfield instead of Pittsford, I'd have a higher trade deficit with Penfield, a lower trade deficit with Pittsford, and my life would be about the same as it is now.

A more interesting number is my *overall* trade deficit—the total of all my spending minus the total of all my earning. My overall trade deficit was pretty high yesterday: I spent \$600 on a living-room rug, and I earned \$0. (It was a Sunday and I didn't feel like working.) My overall trade deficit was \$600.

Traditionally, business journalists describe every increase in the overall trade deficit as a “worsening.” According to that tradition, I had a very bad day yesterday. But it didn't *feel* like a bad day—I *like* my new rug, and it would have been inconvenient to put off buying it until a day when I felt like earning enough to pay for it.

When the nation's overall trade deficit increases, it means that Americans, on average, spent more than they earned. Maybe that's because your neighbors are behaving foolishly; maybe it's just because they have the good sense to realize that you can sometimes spend more than you earn—provided you're willing to draw down your savings.

In any event, foolishly excessive trade *surpluses* are a greater danger than foolishly excessive trade *deficits*. That's because excessive trade deficits are self-limiting: if you run a trade deficit every year, bankruptcy will eventually force you to stop. But excessive trade surpluses can go on forever. A perpetual trade surplus is likely to mean you're either working too hard or consuming too little; either way, you're not getting enough enjoyment out of life.

Here's the final thing to keep in mind when you read about the nation's overall trade deficit: the nation is nothing but the sum of individual households. But there are limits to how much you ought to care about what goes on in other people's households. Even if you are convinced that the average American spends too much, or earns too little, or spends too little, or earns too much, it's not entirely clear why it's any of your business. As long you have your own household in order, fretting about your neighbor's spending habits is a lot like fretting about the color of his living-room rug. Maybe lime green was a big mistake, but it's *his* mistake to live with.