"Losing Sleep over the Trade Deficit?"
by John Stossel
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I'm told to worry about the trade deficit.

Commentators and populist politicians are wringing their hands. The trade deficit is a "malignant tumor in the intestines of the U.S. economy," says Pat Buchanan. Lou Dobbs is very upset that "We're borrowing about $3 billion a day just to pay for our imports"!

Economists had taught me that the trade deficit is not a big deal. (The budget deficit may be a big one, but that's a different issue.) But with all the pundits and politicians alarmed, I began to wonder if I was out of touch.

Then I thought about my local supermarket. I buy stuff from the Food Emporium every week. I spend thousands of dollars a year there. But the supermarket never buys anything from me. Not one thing.

And yet that is no problem. It's better than no problem -- it's fantastic! Imagine if I could only buy from the store to the extent that it needed my services. I'd starve. That would be barter, and mankind dumped barter for the money economy eons ago precisely because it is so inconvenient.

Trade statistics obscure reality. Individuals exchange only when each expects to benefit. If they didn't expect it, they wouldn't trade. That's true even if one party is American and the other Chinese. Trade is trade.

If we don't care about trade balances at the individual level, why does it matter if in a given year Americans as a group buy more from the Chinese than they buy from us? It doesn't.

In fact, it's a good thing. Foreigners trade cool products (and capital goods) for paper money. They can do only three things with our dollars: buy American goods and services, save them, or invest in the United States (including buying U.S. government debt).

In other words, most of what foreigners don't spend here, they invest here. The trade deficit is mirrored by the capital-account *surplus*.

Should we be concerned that foreigners see the U.S. economy as a good place to invest their money? I can't see why. I think we should see it as a wonderful thing: They trust America's future enough to invest in it. Investment creates new products and better jobs.

Especially absurd is Dobbs's idea that the trade deficit means we are in debt to foreigners. Except for the T-bills foreigners buy, this just isn't true. As George Mason University economist Donald Boudreaux wrote in the December issue of The Freeman magazine, "If Mr. Sony uses the $2,000 he receives from selling computers to Americans to buy $2,000 worth of equity in Exxon, the U.S. current-account deficit rises by $2,000, but no real indebtedness is created. No American owes Mr. Sony anything. ... It just ain't so that the so-called trade deficit is debt!"

Boudreaux adds, "If we applaud when citizens of Wisconsin save and invest in software firms in California or orange groves in Florida, why should we not be equally pleased when citizens of Shanghai save and invest in these same American firms?"

Good point, especially when you consider that the only way to shrink the trade deficit is for the government to prohibit us from buying whatever we want.

What the trade fearmongers don't say is that countries with trade surpluses often don't do very well. Japan had a trade surplus all during its long recession, which began in 1990 and is only now ending. By contrast, countries running trade deficits often experience economic booms. A Cato Institute study shows, "Contrary to prevailing assumptions, 'worsening' trade deficits are associated with faster GDP and manufacturing growth and more rapidly declining unemployment, while 'improving' trade deficits are associated with slower GDP and manufacturing growth and rising unemployment.

Adam Smith was right when he wrote, "Nothing, however, can be more absurd than this whole doctrine of the balance of trade."

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