Written by **Bob Adelmann** on April 5, 2017

U.S. Trade Gap With China Narrowed in January and February

When the *Wall Street Journal* reported that, according to the U.S. Department of Commerce, America's "trade gap" shrank in January and February, it intoned that while this was allegedly good news, over the last 10 years it's been bad news: the trade gap "remains far higher than a decade ago." The *Journal* called it a "mixed trade outlook" that bodes ill for the upcoming talks between U.S. President Donald Trump and China's communist leader, Xi Jinping.

Josh Mitchell, writing for the *Journal*, tried to explain why this was bad:

> The U.S. has a trade gap with China that is far bigger than it has with other nations. The deficit has grown more than 40% over the last decade.... [This is because] many American households and companies have imported goods from China as they stepped up their spending on household items and other materials.

How this is bad isn't explained by Mitchell. Instead he happily reports that exports climbed so much in the first two months of the year that this is "leading factories to ramp up hiring and production to meet [the] higher demand [for American goods]." He notes that "U.S. factories are registering a pickup in business [as] the Institute for Supply Management said on Monday that its closely watched index of manufacturing activity expanded in March for the seventh consecutive month."

Mitchell continued: "The U.S. economy runs a trade gap because American households and companies buy many goods … from other regions [outside the United States] like Asia, Europe and South America."

Mitchell's problem is that he, like so many "economists," is looking at just half the equation, comparing goods and goods, and ignoring the money flows that pay for them. This writer's contention is that when a U.S. consumer shops at Walmart and spends $100 for various household goods, he leaves the store better off than when he entered (otherwise he would have kept his $100 in his pocket). He is $100 richer in goods and $100 poorer in cash.

On the other hand, his local Walmart is $100 poorer in goods but is $100 richer in cash. Both are happy or the transaction would never have taken place.

But most focus only on the fact that our consumer has $100 more in goods and his Walmart has $100 less; thus, there's a gap. Happily, economist Walter Williams comes to the rescue with a similar example:

> I buy more from my grocer than he buys from me. That means that I have a trade deficit with my grocer. My grocer buys more from his wholesaler than his wholesaler buys from him. But there is really no trade imbalance, whether my grocer is down the street, in Canada, or, God forbid, in China.

Still confused? Williams has another go at it:

> Here is what happens: When I purchase $100 worth of groceries, my goods account (groceries) rises, but my capital account (money) falls by $100. For my grocer, it is the opposite. His goods account falls by $100, but his capital account rises by $100. *Looking at only the goods account, we would see trade deficits, but if we included the capital accounts, we would see a trade balance.* That is true whether we are talking about domestic trade or we are talking about foreign trade. [Emphasis added.]

Armchair economist and financial consultant Greg McFarlane gave it a go:

> A large trade deficit means that that nation's citizens are so wealthy that they can afford to purchase what other nations have to offer. In that respect, it isn't necessarily desirable nor even fair to compare exports to imports, let alone to consider them to be two sides of the same coin. Besides, as large as American imports are, the United States still exports more than any country, except China. The world wants what we're selling. And vice-versa. This is something to be commended, not criticized.

This, however, doesn't mean that trade deficits don't have their problems. When a country runs trade deficits, it runs the very real risk of causing its currency to hyperinflate, the very thing that is happening in Venezuela right now, where food prices have officially gone up 315 percent recently, according to tradingeconomics.com — and which is a foreseeable danger for the United States. In Venezuela, when the value of exports lagged (mainly because the price of oil — its main export — dropped), and even went into deficit in 2015, it did not bring in enough money to finance its welfare state. When countries run continual deficits with a country such as China, often the country with a trade surplus uses the trade surplus to put businesses in the deficit-running country out of business, which in turn leads to the deficit-running country falling short in collecting enough tax money to run its government programs — and hyperinflation begins. We see it again and again and again, and in America we either need to cut the unaffordable programs or eliminate the trade deficits (likely both), or we will have hyperinflation, just like Venezuela, and all the social ills that go with it. There's a reason that the most impoverished countries in the world run continual trade deficits, and it isn't because such deficits are necessarily good for them.

That being said, enacting trade barriers and beginning a trade war is not the answer to the trade deficit problem. Making the country more competitive, with lower corporate taxes, less restrictive corporate laws, fewer barriers in bank lending, and less legal hurdles are some of the solutions. Lower costs for goods are good for consumers; the country simply must allow its businesses to produce items efficiently.

The focus toward a trade gap or trade deficit or trade imbalance doesn't improve the conversation. That conversation should be centered on the amount of trade being done between people, whether they live down the street or in Bangkok. Governments should eliminate barriers to trade, not try to use various barriers (duties, tariffs, border fees, etc.) to remedy some sort of perceived wrong or inequity.

As Williams puts it: "I fear that the angst over trade deficits is simply a front for being against peaceful, voluntary trade among people of different nations." That's a warning for those waiting to see the results of the meeting this week between Trump and Xi Jinping.

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American *magazine and blogs frequently at LightFromTheRight.com, primarily on economics and politics. He can be reached at badelmann@thenewamerican.com.*