

- [Home](#)
- [Archives](#)
- [Subscribe](#)

[Cafe Hayek](#)

where orders emerge

Two Excellent Posts by Dan Ikenson

by Don Boudreaux on January 12, 2010

in [Balance of Payments](#), [Media](#), [Trade](#)

[Cato's always-superb Dan Ikenson understands that reporters and politicians don't understand the so-called "trade deficit."](#)



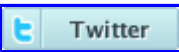

[Dan also understands the real meaning of the growth in exports from China.](#)

 [Comments](#)  [Share](#)  [Print](#)  [Email](#)



Add New Comment

You are commenting as a [Guest](#). Optional: Login below.

- 
- 
- 
- 

Type your comment here.

[Subscribe to all comments by email ▼](#)

- [Subscribe to all comments by email](#)
- [Do not subscribe to comments](#)

Post as Guest

Showing 21 comments

Sort by Oldest first [Subscribe by email](#) [Subscribe by RSS](#)



danielkuehn ★ [18 hours ago](#) 1 person liked this.

It seems to me that the problem that people see with the trade deficit is (1.) it's persistence, and (2.) the reason for it's persistence. This isn't even to say that a persistent trade deficit is always bad either - simply to say that some people have concerns about the nature of this particular persistent trade deficit.

Of course there's nothing inherently wrong with imports. That strikes me as beyond obvious. I don't see how it advances the discussion to knock down a straw man of what people are actually concerned about, and ignore the real underlying concerns: a sharp currency correction.

[Flag](#)

Like Reply Reply



kebko ★ [17 hours ago in reply to danielkuehn](#)

Doesn't the causality run the other way? It seems likely to me that something will cause a currency change ("correction" seems presumptuous to me) and that will affect the trade levels. But, when that happens, most observers will claim that it was all the trade deficit's fault & that it caused the currency revaluation. (They'll call it a "correction".)

If the trade deficit & American profligacy were the problems, is there any theory that would explain why they would continue for decades before they would correct? If profligacy were the problem, wouldn't the currency reactions be fairly immediate? It seems like there is an easy story to see here - that this is a result of demographics, capital flows, and returns on capital, and that observers are biased against seeing it because the profligacy story seems so satisfying. IMHO

[Flag](#)

Like Reply Reply



danielkuehn ★ [4 hours ago in reply to kebko](#)

Well - keep in mind that the only person talking about "profligacy" is Don Ikenson. It's a word he uses to characterize the people he's criticizing - not a word that they've used themselves. So I'd agree with you completely on that point - profligacy has nothing to do with it.

I think it is, as you suggest, a result of capital flows and the dual impact of Chinese weak yuan policy and the Triffen dilemma on the part of U.S. monetary authorities. That is the "cause" of the trade deficit in the sense that those are the exogenous factors driving the persistent deficit. But I don't think you can draw such strict lines of causality in the case of a currency revaluation. Those markets (for traded goods and currency) are simultaneously determined. Chinese and American monetary policy may be the finger on the scale right now, but when the correction does occur I don't think you can say "the currency changed the trade patterns" or "the trade patterns changed the currency". Those

two things are simultaneously determined.

[Flag](#)

Like

Reply

Reply



johndewey ★ [16 hours ago in reply to danielkuehn](#)

I do not see why you feel fear of imports is a straw man. Dan Ikenson is not referring to discussions among enlightened economists. He is referring to the way politicians and mass media ignite fear in common man through use of non-neutral language about trade deficits. Ikenson's point may not "advance discussion" with you, daniel, but who cares? He's commenting about an important issue: how demagogues and an ignorant press can incite fear that results in dangerous protectionist laws.

[Flag](#)

Like

Reply

Reply



danielkuehn ★ [4 hours ago in reply to johndewey](#)

I'm talking about politicians and media too. If we didn't run persistent, large trade deficits with a nation that should, by all indications, be keeping more of it's capital at home than it currently is I don't think anyone would care about a trade deficit. The media may not be writing treatises on currency corrections, but the only reason why they care about it is because of it's unusual and unsustainable persistence. My whole point is if the persistent trade deficit isn't a problem then politicians wouldn't be talking about it and media wouldn't be writing about it. I think you give them too little credit. They may shroud it in "protect American workers" rhetoric that is regrettable, but I really don't think it's imports per se that bothers them. The idea that "imports aren't really bad" isn't THAT hard of an idea, after all johndewey. You don't have to be an "enlightened economist" to grasp that concept.

[Flag](#)

Like

Reply

Reply



johndewey ★ [2 hours ago in reply to danielkuehn](#)

danielkuehn: "The idea that "imports aren't really bad" isn't THAT hard of an idea"

Oh, please! Do you personally know any blue collar workers? Do you know any labor leaders? They've been scared of imports for at least 30 years. Demagogues and mass media have consistently played to that fear. America has been engaged in this fight over protectionism for all of my adult life, daniel, about 40 years. U.S. manufacturers have been paying prominent spokespersons to get that message out. Politicians have enacted stupid protectionist legislation with the support of the electorate. Yet somehow you believe discussion about balanced reporting of protectionist arguments is not worthy because it doesn't "advance the discussion". Wake up and see the real world, daniel.

[Flag](#)

Like

Reply

Reply



danielkuehn ★ [2 hours ago in reply to johndewey](#)

They've been scared of competitors - which is a valid fear. Fear of competitors is

what drives businesses to succeed. I don't think they're afraid of trade deficits in general. What motivates fear of the Chinese trade deficit is its size, origin, and persistence.

RE: "U.S. manufacturers have been paying prominent spokespersons to get that message out."

Again, as I mentioned above, yes it's shrouded in this sort of rhetoric from spokespersons. But as I said that's the result of a fear of competitors - a valid fear - not a fear of imports and trade deficits in general. Of course a specific manufacturer is going to seek protection. That's just rent-seeking. Wake up and see the real world - worries about competitors are going to inevitably be mixed up in discussions of imports. But that's not a concern about imports and the trade deficit per se, just because it's mixed in with it. Very few people today - not even manufacturing interests - think imports in and of themselves are a bad thing. Of course they're going to be concerned about foreign competitors, though. Concern about competitors does not a neo-mercantilist make.

[Flag](#)

Like Reply Reply



[johndewey](#) ★ 57 minutes ago in reply to [danielkuehn](#)

• *"Very few people today - not even manufacturing interests - think imports in and of themselves are a bad thing."*

Get out and talk to real people, daniel, or watch the demagogues on TV.

[Flag](#)

Like Reply Reply



[danielkuehn](#) ★ 55 minutes ago in reply to [johndewey](#)

• Ya - I sound very disconnected from reality when you quote that one sentence from my post. The point is, when concern is expressed it's usually concern about foreign competitors, which is very different from an imports = bad instinct.

[Flag](#)

Like Reply Reply



[mcwop](#) ★ 12 hours ago in reply to [danielkuehn](#)

• People can fix the "trade deficit" by 1) stop using oil 2) Stop the government from borrowing so much we need other countries to sop up the debt. So yes we people cause this persistent phenomenon.

[Flag](#)

Like Reply Reply



[danielkuehn](#) ★ 4 hours ago in reply to [mcwop](#)

• I wonder, though, do we "need" other countries to sop up the debt... or have other countries just decided that that was the safest American asset to invest in to maintain the value of their currency that they want to maintain? I have a hard time believing that we

couldn't sustain government borrowing without the Chinese.

[Flag](#)

Like Reply Reply



[johndewey](#) ★ [46 minutes ago in reply to danielkuehn](#)

"I have a hard time believing that we couldn't sustain government borrowing without the Chinese."

If I read that statement correctly, then I agree with you, daniel. The U.S. is going to sell its national debt regardless of what China does.

[Flag](#)

Like Reply Reply



[SheetWise](#) ★ [16 hours ago](#)

Simply the fact that so many, seemingly otherwise bright people, make such a distinction between currency and goods -- makes my head spin. God help me if I ever start keeping track of surpluses and deficits of *goods* with my trading partners. It sounds like a full time job with no reward. Why anyone actually cares is beyond my comprehension.

Someones smoking crack up there when [the White House says Obama 'strengthened America' in his first year](#). The press, I assume, is just getting second-hand smoke.

[Flag](#)

Like Reply Reply



[Sam Grove](#) ★ [14 hours ago](#) 1 person liked this.

The problem is with the word "deficit". It sounds like we're coming up short. in our accounts.

[Flag](#)

Like Reply Reply



[SheetWise](#) ★ [13 hours ago in reply to Sam Grove](#) 1 person liked this.

Someone sends me a Honda -- I send them some paper promises (that we all agree have value) -- and I've got a deficit?

What in the hell are people thinking? If the seller didn't think that currency or debt couldn't somehow be converted into real world goods, they wouldn't have accepted them.

We're either calling our trading partners idiots, or attempting to prove that we are.

[Flag](#)

Like Reply Reply



[Sam Grove](#) ★ [12 hours ago in reply to SheetWise](#)

or attempting to prove that we are.

or proving that we are.

Fixed.

Why no strike allowed?

[Flag](#)

Like Reply Reply



SheetWise ★ [11 hours ago in reply to Sam Grove](#)

- *"or proving that we are.*

Fixed.

Why no strike allowed?"

It's allowed -- but it won't be by the collectivists. That would be suicide -- because they're mostly parasites, and we wouldn't miss them.

No. If we prove we are idiots, we'll do it in the conventional way ;)

[Flag](#)

Like Reply Reply



mikeikon ★ [7 hours ago in reply to SheetWise](#)

- Well put. However, if our currency is overvalued because of too much gov credit, then eventually there will have to be a correction. At that point our deficit will become a bad thing because we'll have to start increasing our exports to regain that purchasing power. That would explain why exports increase during downturns and decrease during upswings. Interest rates also decrease during booms, but I don't think that Don would say that we should maintain artificially low interest rates and that this is a sign of a healthy economy. There should be a natural balance.

The error that people make is in thinking the trade deficit is a bad thing for our prosperity right now. It actually means we're getting free stuff. It might be a problem in the future, though...

[Flag](#)

Like Reply Reply



SheetWise ★ [6 hours ago in reply to mikeikon](#)

- *"However, if our currency is overvalued because of too much gov credit, then eventually there will have to be a correction. **At that point our deficit will become a bad thing because we'll have to start increasing our exports to regain that purchasing power.**"*

Not necessarily -- the owners of that debt might simply purchase the Sears Tower, or the Port of New York.

"They" are "us" ...

[Flag](#)

Like Reply Reply



[justin](#) ★ [10 hours ago](#)

I don't see the trade deficit as a problem in itself, but doesn't it concern you that we take on so much debt in order to run the deficit? If we ran a trade deficit with no debt then that would be fantastic, but probably impossible too. Eventually I would think the world will stop trading stuff for paper.

From China's perspective, it seems like they're giving America free stuff and keeping their dollar weak in order to keep their exports up. But wouldn't they just consume these things themselves and raise their own standards of living if they let their currency appreciate? I understand this isn't desirable in the short term for China but in the long term it seems to be the answer.

[Flag](#)

Like Reply Reply



[SheetWise](#) ★ [6 hours ago in reply to justin](#)

"I don't see the trade deficit as a problem in itself, but doesn't it concern you that we take on so much debt in order to run the deficit?"

No. Where's the connection?

It bothers me that we take on debt -- but I'm not particularly concerned with who we owe it to.

[Flag](#)

Like Reply Reply

Reactions



[dedo](#) 7 hours ago

From [friendfeed](#) via [BackType](#)

Ottimi gli articoli segnalati.

Trackback URL <http://cafehayek.com/201>

[blog comments powered by Disqus](#)

Previous post: [Umm.... Bad Idea](#)

Next post: [Clunker Health-Care](#)

- Enter your email address to receive new Cafe Hayek posts in your inbox:

Click Here


- [Email Don Boudreaux](#)
[Email Russ Roberts](#)
- **EconTalk Podcast**



[Subscribe via iTunes](#)



Or use [Feedburner](#) to subscribe via Yahoo and other services.

-  **Recent Episodes**
 - [Belongia on the Fed](#)
 - [Rustici on Smoot-Hawley and the Great Depression](#)
 - [Winston on Market Failure and Government Failure](#)
- **Blogroll**
 - [Agoraphilia](#)
 - [Aid Watch](#)
 - [Baseline Scenario](#)
 - [Becker-Posner](#)
 - [Bob McTeer](#)
 - [Business & Media Institute](#)
 - [Carpe Diem](#)
 - [Coordination Problem](#)
 - [Coyote Blog](#)
 - [Culture of Congestion](#)
 - [Division of Labour](#)
 - [EconLog](#)
 - [Greg Mankiw](#)
 - [John Stossel](#)
 - [Kids Prefer Cheese](#)
 - [Knowledge Problem](#)
 - [Liberty & Power](#)
 - [Marginal Revolution](#)
 - [Market Correction](#)
 - [Megan McArdle](#)
 - [Newmark's Door](#)
 - [Overcoming Bias](#)
 - [Social Enterprising](#)
 - [The Agitator](#)

- [The Fly Bottle](#)
- [The Sports Economist](#)
- [The Volokh Conspiracy](#)
- [ThinkMarkets](#)
- **Categories**
 - [Agriculture](#)
 - [Antitrust](#)
 - [Balance of Payments](#)
 - [Books](#)
 - [Business as usual](#)
 - [Cafe Conversation](#)
 - [Charity](#)
 - [Cleaned by Capitalism](#)
 - [Competition](#)
 - [Complexity and Emergence](#)
 - [Cooperation](#)
 - [Crime](#)
 - [Cuba](#)
 - [Current Affairs](#)
 - [Data](#)
 - [Debt and Deficits](#)
 - [Economics](#)
 - [Education](#)
 - [Energy](#)
 - [Entertainment](#)
 - [Environment](#)
 - [Everyday Life](#)
 - [Fables](#)
 - [Family](#)
 - [FDA](#)
 - [Film](#)
 - [Financial Markets](#)
 - [Food and Drink](#)
 - [Fooled by Randomness](#)
 - [Foreign Aid](#)
 - [Frenetic Fiddling](#)
 - [Government intervention in housing](#)
 - [Great Depression](#)
 - [Growth](#)
 - [Health](#)
 - [History](#)
 - [Housing](#)
 - [Hubris and humility](#)
 - [Hunger](#)
 - [Immigration](#)
 - [Inequality](#)
 - [Inflation](#)
 - [Innovation](#)
 - [Intervention](#)
 - [Law](#)

- [Less Than Meets the Eye](#)
- [Looking for your help](#)
- [Man of System](#)
- [Markets in Everything](#)
- [Media](#)
- [Monetary Policy](#)
- [Movies](#)
- [Music](#)
- [Myths and Fallacies](#)
- [Nanny State](#)
- [Not from the Onion](#)
- [Other People's Money](#)
- [Parenting](#)
- [Podcast](#)
- [Politics](#)
- [Population](#)
- [Prices](#)
- [Property Rights](#)
- [Reality Is Not Optional](#)
- [Regulation](#)
- [Religion](#)
- [Risk and Safety](#)
- [Science](#)
- [Seen and Unseen](#)
- [Social Security](#)
- [Sports](#)
- [Standard of Living](#)
- [State of Macro](#)
- [Stimulus](#)
- [Subsidies](#)
- [Taxes](#)
- [Technology](#)
- [Terrorism](#)
- [The Crisis](#)
- [The Economy](#)
- [The Future](#)
- [The Hollow Middle](#)
- [The Profit Motive](#)
- [Trade](#)
- [Travel](#)
- [Uncategorized](#)
- [Unprecedented intervention](#)
- [Video](#)
- [Wal-Mart](#)
- [War](#)
- [Web/Tech](#)
- [Weblogs](#)
- [What's wrong with the country](#)
- [Work](#)



To search, type and hit enter

8764 readers
BY FEEDBURNER

Recent Posts

- [Clunker Health-Care](#)
- [Two Excellent Posts by Dan Ikenson](#)
- [Umm.... Bad Idea](#)
- [Power and politics at the Fed](#)
- [Stossel and Atlas Shrugging](#)
- [Bring Back Bubba](#)
- [Why such extreme leverage?](#)
- [Delusion of Protectionism](#)
- [The True Cheats](#)
- [PERC's Enviropreneur Institute](#)

- [People](#)
- [Recent](#)
- [Popular](#)

Most Discussed

- [Clunker Health-Care](#)

24 comments · 1 hour ago

- o [Two Excellent Posts by Dan Ikenson](#)

21 comments · 49 minutes ago

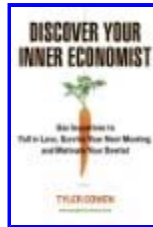
- o [Delusion of Protectionism](#)

93 comments · 9 hours ago



- **Archives**

- **Books We Like**



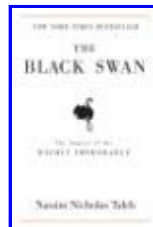
[Discover Your Inner Economist: Use Incentives to Fall in Love, Survive Your Next Meeting, and Motivate Your Dentist](#)



[Everything Is Miscellaneous: The Power of the New Digital Disorder](#)



[The Myth of the Rational Voter: Why Democracies Choose Bad Policies](#)



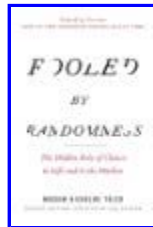
[The Black Swan: The Impact of the Highly Improbable](#)



[The Baseball Economist: The Real Game Exposed](#)



[The Fatal Conceit: The Errors of Socialism \(The Collected Works of F. A. Hayek\)](#)



[Fooled by Randomness: The Hidden Role of Chance in Life and in the Markets](#)



[Schott's Almanac 2007](#)

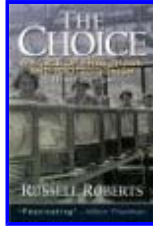
Our Books



[The Price of Everything: A Parable of Possibility and Prosperity](#)



[Globalization \(Greenwood Guides to Business and Economics\)](#)



[The Choice: A Fable of Free Trade and Protection \(3rd Edition\)](#)



[The Invisible Heart: An Economic Romance](#)

- **Help Improve the Cafe**

[Contact our webmaster about errors on the site.](#)

Get smart with the [Thesis WordPress Theme](#) from DIYthemes.