

The Utter Irrelevance of the “Balance of Trade”

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In Chapter 6 of Frédéric Bastiat’s indispensable collection entitled *Economic Sophisms* Bastiat (original emphasis):

*The truth is that we should reverse the principle of the balance of trade and calculate the national profit from foreign trade in terms of the excess of imports over exports. This excess, minus expenses, constitutes the real profit. But this theory, which is the correct one, leads directly to the principle of free trade. I present this theory to you, gentlemen, just as I do all the others that have been the subjects of the preceding chapters. Exaggerate it as much as you wish; it has nothing to fear from that test. Assume, if it amuses you, that foreigners flood our shores with all kinds of useful goods, without asking anything from us; even if our imports are **infinite** and our exports **nothing**, I defy you to prove to me that we should be the poorer for it.*

No concept in international economics – indeed, perhaps no concept in *all* of economics – is as prodigious a source of confusion and plunderous policy as is that of the so-called “trade deficit.” As regular and careful readers of this blog know, this concept is encrusted with countless myths and half-truths. I’m convinced that humankind would be far better off had no one ever thought to carry over to modern times the absurd mercantilist notion of the “balance of trade.”

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