No Such Thing as “International” Economics

Written by Donald Boudreaux.

I’ve come to the conclusion that the world would be better off had there never been the sub-discipline within economics of “international economics” (or, alternatively, of “international trade” and “international finance”). The economics profession likely also would be better off without such a sub-discipline.

Countries Don’t Trade

Only individuals, separately or in voluntarily formed groups such as firms, trade; countries as such do not trade.

Only individuals, separately or in voluntarily formed groups such as firms, have comparative advantages and comparative disadvantages; countries as such have no advantages or disadvantages.

Only individuals, separately and in voluntarily formed groups such as firms, specialize in production; countries, as such, do not.

Only individuals, separately and in voluntarily formed groups such as firms, create or take advantage of economies of scale, of scope, or of both in production; countries, as such, do not.

Only individuals, separately or in voluntarily formed groups such as firms, spend, save, and invest; countries, as such, don’t.

Only individuals experience income, wealth, or welfare gains and losses; countries as such experience nothing.

Of course, we can – and do – talk, for example, about “America trading with China,” about “Germany having a comparative advantage in the brewing of beer,” about “India’s national income rising,” and about “Peru’s trade deficit falling.” But all this talk merely describes the largely unintended, aggregate results of countless choices and actions each made by a particular, flesh-and-blood person.

And also, of course, *governments* do perform many of these activities – for example, spend. But no government is a country. Each government is merely a particular organization run by particular, flesh-and-blood persons according to a certain set of formal and informal rules.

The reason for my conclusion, that it is unfortunate that there exists the sub-disciple “international economics”, is that discussing “international trade” and “international finance” gives the impression that there is something so unique about international transactions in goods, in services, and in investments and financial instruments that these transactions warrant being studied separately from non-international transactions. But there is nothing essentially unique about international transactions. Nothing at all.

Splitting Hairs

There are, of course, *in*essential differences that separate domestic from international transactions.

Examples of these inessential differences include the need for currency conversions; the fact that different jurisdictions have different monetary policies; the fact that people in one political jurisdiction operate under different laws and legislation – including tax policies – than do people in other political jurisdictions; the reality that average wages and wealth in some political jurisdictions often differ from those in other political jurisdictions; the fact that international transactions generally (although not always) occur over geographical distances that are greater than are the distances covered by domestic transactions.

But whatever analytical gain there might be from treating transactions that are separated by these inessential differences differently from transactions that are not separated by these differences, the price of this gain is too great.

The very notion of “international trade” causes us to miss the essential reality of trade, which is always flesh-and-blood individuals bargaining and exchanging with each other in ways that each person judges to be in his or her best interest. This intellectual oversight is the result of conceiving of trade as something done between countries. This country-level perspective then prompts us to judge the merits of trade by how likely or unlikely it is to increase the *aggregate* net well-being (however conceived or measured) of the subset of human beings who are denizens of, or citizens of, each particular country.

Yet any such country-wide assessment of trade is illegitimate – or, at least, such an assessment is no more legitimate than would be an assessment of trade that takes as the relevant group, not the whole country, but my neighborhood.

People in my neighborhood freely trade with people outside of my neighborhood. Sometimes this freedom to trade works to the immediate disadvantage of my neighbors – for example, to have the oil changed in my car I do not use my nearby, neighborhood service station; instead I go to the dealership where I bought my car, which is several miles from my home.

Fortunately, we have no sub-discipline in economics devoted to the study of “interneighborhood trade.” Were such a sub-discipline to exist, all sorts of nefarious empirical studies and theoretical welfare analyses would be conducted – studies and analyses that would lead unavoidably to government manipulation of interneighborhood trade.

And while much of this manipulation would be sparked by economic ignorance – such as some wag's insistence that my neighbors and I cannot be allowed to trade freely in interneigborhood markets if the result is a trade deficit for our neighborhood – nearly all of this manipulation would be supported by politically influential neighbors who profit from the 'protection' they receive in the form of government restrictions on interneighborhood trade.

Trade is trade is trade, no matter how many, or what sort of, political borders it might span in any specific instance. Economists should study trade, period, with no more attention paid to international trade than to interstate or intercontinental on interneighborhood or interfamily or interhousehold or interpersonal trade.

Without a separate sub-discipline called "international trade," the general public would be spared – and rent-seeking interest groups would be denied – the many misleading mirages that are created when trade is discussed as if its character and contents are fundamentally different when it spans political borders compared to when it doesn't.

Originally published at FEE.org