Etceteras . . .

Against the Whole Concept and Construction of the Balance of International Payments

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The root of a great and destructive economic misunderstanding can be traced to an accounting statement known as "the balance of international payments" (International Monetary Fund n.d.). As the name suggests, this accounting statement rests on the idea that nations (in the form of their resident individuals, business firms and other organizations, and governments) trade with other nations (similarly composed). But the aggregation of the individuals, business firms and other organizations, and governments in accordance with the country in which they are located sets in motion a basic misunderstanding that economists have been unable to root out even in two and a half centuries of trying.

In reality, individuals, business firms and other organizations, and governments trade with other such entities, some of which are located in the same country and others of which are located in other countries. The location of the trading partners has no economic significance whatsoever. Trading entities enter into exchanges voluntarily, each one in each transaction anticipating a gain from the trade. Hence, in expectational terms, every such trade entails a gain from trade—in other words, an addition to the trader's wealth.

Separating the trading entities into national aggregates allows a variety of fallacious conclusions to be drawn by artful intriguers. Historically such intriguers formed practically an entire "school" of economic policy now known as mercantilism. In his classic work *The Wealth of Nations* (1776), Adam Smith exposed many of the errors and misconceptions of this school and argued forcefully for freedom of trade as the policy consistent with maximization of people's wealth as a whole rather than augmentation

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of the intriguers' wealth at the expense of the general public. As Smith concluded, "Nothing . . . can be more absurd than this whole doctrine of the balance of trade" ([1776] 1937, 456).

A little later, David Ricardo, drawing on earlier analysis by James Mill, explained the logic of the Law of Comparative Advantage, demonstrating that even traders with "absolute advantage" in every type of production could still gain by obtaining certain products by trade rather than by their own production. This foundational principle of economics has debunked mercantilism and its evil policy spawn, protectionism, ever since. Yet given the public's ignorance of economic principles, artful intriguers have never ceased to profit by bamboozling people into believing that protectionism and national self-sufficiency can enhance national prosperity. Today the U.S. government proudly pursues these fallacious and immoral policies, and many people support President Donald Trump and his advisers as they peddle these ancient mistakes.

If there were no accounting concept or set of data organized as the balance of international payments, however, such misconceptions and errors would have nowhere to hide. Trade would be seen as a means of enhancing the wealth of all the traders regardless of the country in which they reside. Nonsense about harmful deficits in the national balance of trade in goods and services (the so-called current account) would evaporate like the morning mist in the rising sun. Politicians would lose a potent rhetorical cover for their schemes to enrich their private-sector cronies (and hence themselves in political payback). The best thing that could ever happen in regard to the public's understanding of international trade and financial flows would be for the balance of international payments to simply disappear. It is greatly to be regretted that this accounting system was not throttled in its cradle because it has fostered nothing good and a great deal that is bad.

References

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