

## Trade Wars

Editorial

Over a hundred years ago, the various editions of John Stuart Mill's *Principles of Political Economy* stated that it was no longer necessary "at least in our own country" to do more than state without much argument the falsity of the "doctrine of Protection to Native Industry... The importation of foreign commodities, in the common course of traffic, never takes place except when it is, economically speaking, a national good".

The beginnings of a trade war between America and Japan and jingoistic Jap-bashing by British politicians in 1987 demonstrate clearly that it is necessary once more to reiterate the case for Free Trade. It should be certain that the trade war is not about access to the Japanese market for Cable and Wireless and British stock broking companies. Nor is it about Japanese semi-conductors being 'dumped' on the American market. It is about the assumption that it is bad for Britain or any other country to have an overall trade deficit, and the even more strange idea that bilateral trade imbalances are unnatural and in need of rectification.

At the elementary level it is forgotten that we gain by buying from the shopkeeper even though he does not buy back from us. He can trade with a third or fourth party and it will be all the same to us. For each loaf of bread we buy from him there is a gain to both sides: we value the bread more than the money, he values the money more than the bread. The fact that we never work in his shop or home is not relevant to the gains that we both enjoy from trade. And so it is with Japan.

### Trade Deficits not Bad

The assumption that a deficit on current account in a particular year is a bad thing is widely held, but quite mistaken. If someone earned £15,000 in 1986 and spent £40,000, the result is not inevitably disastrous. If that person had borrowed the £25,000 and gambled it away at the casino, that would be

one thing. If he had used the money to buy a flat in London or purchase shares, that could well turn out to be a prudent investment. The fact that *his* current account is in deficit by £25,000 for 1986 is in itself neither good nor bad. The important question is whether the borrowed money has been used well or badly. Equally, the fact that Britain's current account in 1986 was in deficit by one billion pounds is not in itself significant. The quality of the investment of this foreign borrowing is the important thing. If foreigners wish to invest in the British economy and they invest wisely, we can safely say that the bigger the deficit the better it is.

America had a deficit on current account throughout the 19th century because the American economy was seen as a sound investment.

Worrying about bilateral imbalances is even sillier. In 1986, Britain had a trade deficit with Japan and a trade surplus with Saudi Arabia. whilst Japan had a trade deficit with Saudi Arabia. The fact that Britain exports defence equipment to Saudi Arabia which exports oil to Japan which exports manufactures to Britain may be untidy for the bilateral equality freaks, but it is hardly sinister.

It is peculiarly inappropriate for British politicians to start raising scares of this kind. Britain exports around 30% of her GNP and is one of the countries which would suffer most if there were a fall-off in world trade because of a rising tide of protectionism. Britain is also the second largest creditor nation in the world with net overseas assets of £110 billion, much of which has been built up from surpluses on current account over the last five years. It makes no sense to start actions which could prevent British capital from reaching its most profitable destinations.

Confusion over the economics of international trade explains much protectionist sentiment - but why is everyone picking on Japan? Last year Britain had a larger trade deficit with West Germany and the Germans ban nearly all British beers and confectionary. Luckily there is no clamour for a trade war against the Germans.

*The Libertarian Alliance is an independent, non-party group, with a shared desire to work for a free society.*

Japan is the only major advanced industrial nation which is not perceived as European in origin or outlook. The Europeans don't like it when they see that the Japanese are surpassing them. But then the Japanese seem always to have been either inscrutable or dangerous.

### **Economics not Racism, Please**

In the 1850s Japan was forcibly 'opened up' by the West who threatened to dominate it as they were dominating China. When faced with this prospect the Japanese decided to modernise and become Western in outlook. They succeeded all too well and decided to follow the European example in building an empire. The Europeans then decided to change the rules. Empire building was declared wrong once the Europeans had got their empires. Oil sanctions were slapped on Japan in 1941 by the USA, Britain and Holland, and the Pacific war fought to stop Japanese imperial pretensions. After World War Two Japan was told that there were now new rules called GATT and trade was the name of the game. Again the Japanese agreed to play by the new rules, but they played them so well that they had the infernal impudence to produce goods that everyone wanted to buy. It seems the rules will have to be changed once more.

**Free Life**