

# Re: Trade deficits, Current Accounts, and Budget Deficits

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"Brablo" <gestureofrespect@yahoo.com> wrote in message  
news:1111713129.657870.38540@o13g2000cwo.googlegroups.com...

> *Hello all Economists!*

>

> *Our latest current account deficit is about \$666 Billion for '04. I  
> realize that everyone, including myself, was startled and wary about  
> this statistic.*

>

> *However, according to one study book I'm reading (Schweser Study  
> Program for the CFA '04), it states that "There is no negative  
> interpretation associated with running a current account deficit.  
> Unlike an individual or institution running a budget deficit, a current  
> account deficit simply means that a country imports more than it  
> exports. If offset by a surplus in the capital accounts, a deficit in  
> the current account can continue for a long period with no apparent  
> problem."*

>

> *So relax. There was no reason to be startled.*

>

> *Here are some questions that I have:*

> *1. What are the differences between the trade deficit/surplus and the  
> current account? What were the figures for each of these last year?*

> *Correct me if I'm wrong, but I think that the trade deficit was \$666B  
> for '04.*

> *2. What was our budget deficit for last year?*

>

When people talk about the trade deficit they are typically talking about the balance on current account – which includes goods, services, some military transactions, and I believe interest payments – which are mostly a wash each way. Both the trade deficit and the budget deficit were a little over \$600 billion last year. You can look it up someplace if you want exact numbers.

The trade deficit is financed by capital coming into the US. There are several problems with this. It is totally at the discretion of foreigners and if they

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lose confidence in US investments, e.g. because of the falling dollar, the US is in deep trouble. It also means the foreign interests are increasing owed money which will probably have to be paid back sometime.

Bill