

## Re: Debtor Nation, another view

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*Source:* <http://sci.tech-archive.net/Archive/sci.econ/2005-10/msg00137.html>

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- *From:* "Dan in Philly" <[djrr8@xxxxxxx](mailto:djr8@xxxxxxx)>
  - *Date:* Tue, 11 Oct 2005 22:07:34 -0400
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"William F Hummel" <[wfhummel@xxxxxxxxxxxx](mailto:wfhummel@xxxxxxxxxxxx)> wrote in message ...

- > Debtor Nation, Without Rhetoric
- > By Thomas Nugent

Any relation to Ted?

- > it is fact – not theory – that
- > government budget deficits add exactly that amount to the savings of
- > financial assets that the rest of us hold.

Budget deficits are matched by issuing financial assets (eg. T-bonds); that doesn't mean that savings are unchanged.

- > When the consumer borrows to buy (a German) car rather than using cash in
- > his
- > bank account (a more likely option), the bank makes a loan to the
- > consumer, creating a loan on the asset side of the bank's balance
- > sheet and a new deposit on the liability side. (Loans create
- > deposits.) After the car is paid for, the German car company has the
- > new bank deposit. Note that consumer borrowing increased total bank
- > deposits and funded foreign deposits (savings) of U.S. dollars. The
- > widely held causal myth is that foreigners are funding U.S. consumers.

yuck. Where did the bank's loanable funds come from? If the consumer hadn't bought the foreign car, what would those funds have been used for?

- > That's what the trade gap is all about — the desire of foreigners to
- > net save U.S. dollars and to sell goods and services to the U.S. to
- > obtain those assets. If foreigners did not desire to save U.S.
- > dollars, they would instead [use their dollars to] buy goods and
- > services from the U.S. and there would be no trade deficit.

Or, if they didn't want dollars, they would convert them to yen, euros, etc. and cause the dollar to depreciate. Which is what began happening a couple years ago.

- > When foreigners hold Treasury securities, the U.S. government is said

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- > to have foreign creditors, and the U.S. is said to be a debtor nation.
- > While this is true by definition, a look past the rhetoric at what the
- > U.S. government actually owes the holder of Treasury securities is
- > revealing. The government promises that, at maturity, the foreigner's
- > security account at the Fed will be debited, and his bank's reserve
- > account at the Fed will be credited for the balance due. In other
- > words, the U.S. government's promise is only that, at maturity of the
- > Treasury security, a non-interest bearing reserve balance will be
- > substituted for an interest bearing Treasury security. This
- > transaction is not a potential source of financial stress for the
- > government. Remember, the U.S. is no longer on a gold standard meaning
- > that the dollar is not redeemable at the government for gold or any
- > other good or service.

So: using money creation to pay our foreign debts?

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The only relevant question about budget deficits (arising, presumably from tax cuts or spending increases) or trade deficits is: does it change our consumption (C and G in the gdp equation  $Y = C + G + I + NX$ )? If not, then the article is basically right.

Dan in Philly

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• *Follow-Ups:*

- ◆ *Re: Debtor Nation, another view*  
◇ *From:* William F Hummel

• *References:*

- ◆ *Debtor Nation, another view*  
◇ *From:* William F Hummel

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