

Re: Debtor Nation, another view

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- *From:* Mason A. Clark <masoncERASETHIS@xxxxxxxxxxxxx>
 - *Date:* Wed, 12 Oct 2005 07:05:30 GMT
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On Tue, 11 Oct 2005 16:14:48 -0700, William F Hummel <wfhummel@xxxxxxxxxxxxx> wrote:

> Debtor Nation, Without Rhetoric
> By Thomas Nugent
> Feb 24, 2004
>
>In the world of economic analysis, fundamental truths are sometimes
>lost to rhetoric. For example, 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.

Again, I didn't intend to post any comment, but for crying out loud *who* is "the rest of us"? I know people who have *no* financial assets. What part of the "rest" are they?

Things like this I regard as either ignorance or rhetorical tricks and stop my reading. Bye.

> Yet politicians and
>economists have attacked the federal budget deficit on the premise
>that it reduces savings. Few media moguls pick up on the fact that
>expansive fiscal policy (the budget deficit) has been directly
>responsible for the recent increases in non-government savings, just
>as they overlooked the fact that the Clinton surpluses reduced our
>savings.
>
>Along with errantly berating budget deficits as draining our savings,
>the media make an equally illogical error regarding the trade deficit.
>Within the Beltway, a trade deficit means that U.S. consumption is at
>the mercy of foreign lenders, and the U.S. Treasury is beholden to
>foreign owners of its securities. The image is that of the U.S.
>government and American consumer going hat-in-hand around the world
>begging for credit to fund expenditures, with the United States also
>at risk of meeting its foreign "obligations." We are presumed to be
>suffering the consequences of being a debtor nation.
>
>Fortunately, the truth is far from the mythology. To expose these
>myths, all that's needed is a closer look at what's really happening.

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>First it's the U.S. consumer who is funding foreign savings, and not
>foreign savings that is funding the consumer. Second, U.S. Treasury
>issuance has to do with alternative accounts at the Federal Reserve,
>and is not the precursor of financial stress.
>
>What occurs when a U.S. consumer purchases a German-made car? If the
>consumer pays cash, the consumer's checking account in a U.S. bank is
>debited and the German car maker's account is credited, thereby
>increasing foreign savings of U.S. dollars. Total deposits in the U.S.
>banking system remain the same. (By the way, there is no cargo ship in
>New York harbor taking dollars back to Germany. All that occurs is a
>change in holders of U.S. dollar deposits in the banking system.)
>
>When the consumer borrows to buy the 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.
>
>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.
>
>Following the above transaction, the foreign holder of U.S. dollar
>bank deposits may decide to invest in U.S. Treasury securities rather
>than hold a bank deposit. At the time of the German car company's
>purchase of these securities, the seller of the Treasury securities
>becomes the new holder of the bank deposit, and the foreigner the new
>holder of the Treasury security. (If the foreigner buys securities
>directly from the Treasury the result is the same.)
>
>When foreigners hold Treasury securities, the U.S. government is said
>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. Holders of deposits or Treasury securities
>can't demand the surrender of our national parks, or any other U.S.

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>asset.

>

>Understanding that government deficits add to savings and that U.S.

>consumers fund the desires of foreigners to save is a good way to

>start seeing through the media's economic mythology.

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• **Follow-Ups:**

◆ **Re: Debtor Nation, another view**

◇ *From:* royls

• **References:**

◆ **Debtor Nation, another view**

◇ *From:* William F Hummel

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