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Quiggin Responds to “Neither Borrower nor Lender Be” by Thomas J. Grennes

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Summary

Thomas Grennes’s letter criticizing my article, “The Unsustainability of the US Trade Deficit,” fails to distinguish between the trade deficit and the current account deficit, and therefore does not respond to my argument.

KEYWORDS: trade balance, current account balance

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To the Editor:

Thomas Grennes's letter, "Neither Borrower nor Lender Be," unwittingly illustrates my observation that "much analysis confuses the current account deficit and the goods and services deficit." As I stated in the summary of my piece, "The Unsustainability of the US Trade Deficit": "Although substantial current account deficits can be sustained indefinitely, large deficits in goods and services trade cannot be. Even to stabilize the current account deficit, the United States must restore balance in goods and services trade within a decade or so."

Grennes ignores the distinction between current account and trade, focusing entirely on the current account balance. He suggests that "a zero current account balance implies neither borrowing nor lending, and a zero balance appears to be what Quiggin advocates." In fact, I examine the adjustment needed to stabilize the current account at its current (historically high) level of 5 per cent of GDP, and show that this requires a fairly rapid return to balance or surplus on the trade account.

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