Neither Borrower nor Lender Be: A Letter commenting on “The Unsustainability of U.S. Trade Deficits” by John Quiggin

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Summary

John Quiggins’ article, “The Unsustainability of U.S. Trade Deficits” ignores the gains from international borrowing and lending and the gains from trading according to comparative advantage.

KEYWORDS: U.S. Balance of Payments
To the Editor:

John Quiggin’s paper, “The Unsustainability of U.S. Trade Deficits,” has several shortcomings. It fails to recognize the conventional benefits from international borrowing and lending. It ignores the net benefits from trading according to comparative advantage. In claiming that recent deficits are not sustainable, it does not take account of the facts of U.S. balance of payments history.

Polonius advice to Laertes was “Neither borrower nor lender be,” but this advice is not based on sound economic analysis, and it does not describe the empirical behavior of successful households, firms, and governments. In balance of payments jargon, a zero current account balance implies neither borrowing nor lending, and a zero balance appears to be what Quiggin advocates. However, if savers can earn a higher rate of return abroad than at home, both foreign borrowers and domestic lenders gain in spite of the resulting deficit for the borrower and surplus for the lender.

Quiggin asserts that deficits are not sustainable forever. It is difficult to refute such a vague hypothesis, but the United States has had alternating periods of persistent deficits and surpluses throughout its history. In the 19th century the U.S. had deficits in 90 percent of the years, and they continued until World War I. The balance of payments turned to persistent surpluses until 1982, followed by persistent deficits. As economic conditions change savings relative to investment, countries change from borrower to lender and back.

Finally the proposal to restrict oil imports to improve the balance of payments is gratuitous. In absence of externality issues, it is optimal for Americans to follow comparative advantage and acquire oil from the least cost source, including imports.

Finally, Quiggin claims that the economics profession has paid little attention to the U.S. balance of payments deficit issue. He should consult the series of papers (with titles similar to Quiggin’s) by Maurice Obstfeld and Kenneth Rogoff beginning in 2000 and including a recent NBER Working Paper (2004) on the subject.

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Further Reading
