Economics (twin deficit)

Large US Budget and Current Account Deficit The US budget deficit for the last 20 years has been rising steadily and has now assumed a gigantic proportion. The large budget deficit and corresponding increase in current account deficit has come to a point where serious steps need to be taken. The current deficit of approximately $900 million is nearly 7% of GDP which is largest till date. The International Monetary Fund (IMF) has too voiced its concern.

The large budget deficit means that the government expenditure is much more than its income. Several major policy decisions may account for the large deficit but the main area where the allocation of fund has steeply risen is the defence budget. The deficit has been covered through the borrowing from various agencies both foreign and domestic.

The persistent current account deficit for last 20 years has given unprecedented amount of claims to foreign investors. It is always possible that at some time in future and specially if no corrective measures are urgently taken up, the situation may very well become challenging.

The foreign claims are generally in the form of stock bonds, treasury issues, bank accounts and other types of financial securities. Foreign governments, their central banks and international agencies possess a sizable share of the claim. One way of looking at the present scenario is that America is becoming increasingly dependent on the imports while its export market is not showing substantial growth. Steady depreciation of the dollar in the international market is the indicator that decides the inflow of foreign investment in the country. When the dollar depreciates, there is more inflow of foreign goods and services.

IMF in recent time has also cautioned US to take appropriate steps to curb its rising current account deficit. The report says that ‘ the concern remains that at some time more adjustment will be needed to ensure that the global pattern of current account position remains consistent with the willingness of the international wealth holders to build up net claims on the United States’. The global economy has been advancing at a very fast rate and in the present circumstances when the global inter-dependence has become a norm, United States needs to moderate its consumption and spending and focus on issues that would help restrain the increasing growth of current account deficit.

One must conclude that today statistics show that US needs to import $1 trillion of foreign capital every year. In the long run, it is highly unsustainable situation both in terms of international finance and domestic political viability. Urgent corrective measures are the need of the hour and should be taken on top priority basis.

Reference

Global Prospects and Policy Issues: Chapter 1 [Internet]. Available from: [Accessed on 24 May 2007].