i.e., that in the long run the balance of payments is equal to the trade surplus plus the surplus on the service account, a condition which is consistent with the zero balance on the capital account implied by long-run equilibrium.

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Economic Policy in an Open Economy: A Reply

By

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In my 1975 paper I had side-remarked that stationary equilibrium is improbable with existence of foreign debt. This view is challenged by Petith. The difference arose because he defines savings, and rightly so, in terms of *disposable* income whereas I defined savings in terms of domestic production. According to my definition domestic production is equal to domestic consumption in the stationary state; in the alternative case called the correct solution by Petith, consumption is not equal to domestic production. For example, a long-run trade surplus, used to finance interest payments on net foreign debt, implies that consumption falls short of domestic production. Is this a reasonable characterization of stationarity? I think not. There is no reason why in a *stationary state* domestic wealth is not such as to allow all of domestic production being consumed.