# Govt and Foreign Savings

- In every case, for all agents, savings is defined as the difference between income and expenditure. If expenditure is 8 and income is 10 savings is 2 and this is true whether we are talking about firms, hh, govt or foreign.
- The question is about the word "deficit". The meaning of the word deficit is just how much money is missing. If the government runs a deficit, there is not enough income to cover spending.
- If there is not enough income to cover spending then surely there can be no savings on the part of government. Savings would only be possible if income exceed expenditure.
- When expenditure exceeds income, we say that (1) the government is running a deficit and (2) government savings is negative. Both should make sense now.
- Thus when we want to compute the deficit we put a minus sign in front of govt savings. If govt savings is -2, then the deficit is 2. If govt savings is 6 then the deficit is negative, -6.
- Foreign savings is the amount of our imports that exceed our exports. The foreigners are thus doing some savings in the since that they are giving us more than we are paying for.
- They will want the difference back in the future. In the mean time we have run a deficit. Our foreign deficit is their savings.
- If foreign saving is 4, it means that our exports are 4 less than our imports and thus the foreign deficit is 4.