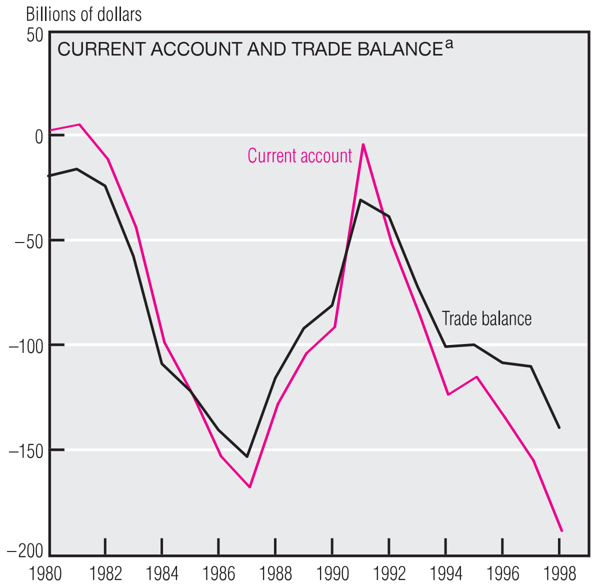
Current-Account Deficits



U.S. Balance of Payments
(Billions of dollars)

	1991	1998[a]	Change[b]
Current account	–4	–189	–184
Capital flows	52	185	133
Official reserves	23	39	16
Other U.S. government	3	–2	–5
Direct investment	–9	–24	–14
Securities	24	283	260
Other nonbank	8	1	–7
Other bank	3	–113	–117
(Discrepancy)	–47	4	51

Foreign Purchases and Sales of Securities
(Billions of dollars)

	1991	1998[a]	Change[b]
Total securities	24	283	260
U.S. purchases of foreign securities	–46	–21	25
Foreign purchases of:			
U.S. Treasury securities	19	–6	–24
U.S. currency	15	3	–13
U.S. private securities	35	307	272

Savings, Investment, and Foreign Capital Flows
(Billions of dollars)

	1991	1998[a]	Change[b]
Savings	934	1,483	549
Private	931	1,130	199
Government	3	352	349
Foreign capital inflow[c]	4	189	185
Domestic investment	937	1,604	667
(Discrepancy)	–1	–68	–67

a. 1998 values are based on first-quarter data.
b. Data may contain rounding errors.
c. Includes balance-of-payments statistical discrepancy as unreported capital flows.
SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis.

Any U.S. current-account deficit must be accompanied by a foreign-capital inflow of equal magnitude. Movements in dollar exchange rates and changes in the spreads between U.S. and foreign interest rates preserve this balance in our international accounts. How far exchange rates and interest rates must adjust to maintain this equilibrium, however, depends on both the financial instrument and the output that the capital finances. Capital flows into liquid assets are prone to rapid, abrupt flight that can produce swift, extensive exchange- and interest-rate adjustments. Likewise, flows that sustain domestic consumption may require larger rate adjustments than flows sustaining domestic investment.

We lack data on the maturity structure of foreign investments, but we can link the $184 billion increase in our current-account deficit since 1991 to a sharp increase in foreign holdings of U.S. private securities. These are probably more prone to flight than are official reserves or foreign direct investments that represent controlling interests in U.S. businesses.

The connection between domestic savings and investment and the current account deficit is clearer. Since 1991, capital inflows associated with the expanding current-account deficit have been accompanied by even larger increases in domestic savings and investment.