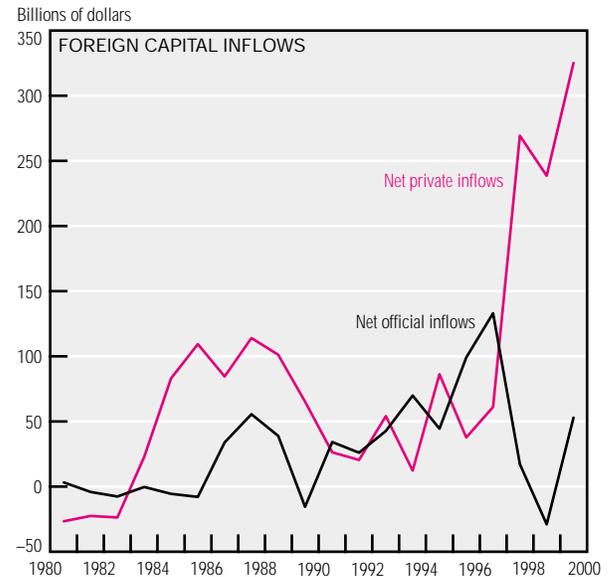
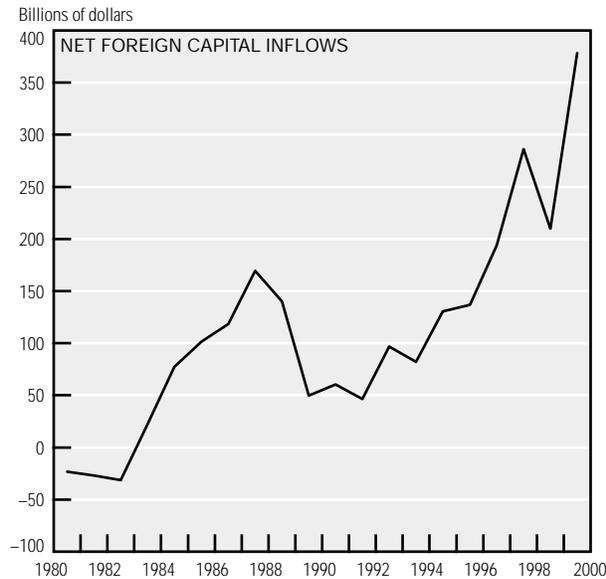


# Savings, Investment, and Foreign Capital



	Percent of nominal GDP		Change in percent
	1992	1999	
Gross savings	15.9	18.7	2.7
Gross private savings	18.4	14.7	-3.7
Gross government savings	-2.5	3.9	6.4
Gross domestic investment	17.2	20.7	3.5
Gross private domestic investment	13.7	17.5	3.8
Gross government investment	3.5	3.2	-0.3
Net foreign investment	0.6	3.4	2.8
Statistical discrepancy	0.7	-1.4	-2.0

	Percent of nominal GDP		Change in percent
	1992	1998 <sup>a</sup>	
Gross domestic investment	17.3	20.6	3.3
Capital consumption	12.5	12.2	-0.3
Net domestic investment	4.8	8.4	3.6
Residential	1.8	2.6	0.9
Nonresidential Structures	2.8	5.0	2.2
Equipment and software	1.8	2.2	0.4
Change in inventories	0.2	0.8	0.6

a. Latest available data.

SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; and Michael R. Pakko, "The U.S. Trade Deficit and the 'New Economy,'" Federal Reserve Bank of St. Louis, *Review*, vol. 81, no. 5 (September 1999), pp. 11-20.

Proponents of the "new economy" laud our recent strong economic performance as evidence of a sustainable increase in the underlying growth potential of the U.S. Whether these gains ultimately prove permanent or transitory remains uncertain, but it is certain that substantial inflows of private foreign capital have encouraged them. Capital inflows are the necessary counterpart to our current-account deficit.

The U.S. has witnessed an up-

surge in gross domestic private investment over the current expansion; as a share of GDP, it has risen from 13.7% to 17.5%. The entire increase has gone toward acquiring new capital goods; it does not represent higher costs of maintaining the existing capital stock. Moreover, half the increase in investment appears as the acquisition of equipment and software. Advocates of the "new economy" typically recognize investments in computers

and other information-processing equipment as its foundation.

A country with a current-account deficit is necessarily investing more than it is saving. Inflows of foreign capital equal the difference. Changes in domestic savings, domestic investment, or foreign capital flows initiate adjustments in interest rates and exchange rates that maintain this equilibrium. From such a perspective, the U.S. current-account deficit is not the economic bane that many portray it to be.