In 2004, the U.S. current account deficit climbed to $666 billion, nearly 6% of our GDP. We financed the increase primarily by issuing financial claims to foreign governments and their central banks. Direct investment flows were essentially unchanged.

Many blame the U.S. for its persistent deficits, contending that Americans do not save enough or that the federal government runs huge budget deficits. But Federal Reserve Governor Ben Bernanke argues that the real cause of rapidly growing U.S. current account deficits between 1996 and 2003 was a glut of foreign savings. If we run a current account deficit, the rest of the world—on balance—must maintain a current account surplus and export savings to this country.

Bernanke noted with particular concern that developing countries’ collective current account positions have shifted: formerly importers of savings, they have become exporters. In large part, this reflects a desire to accumulate official reserves. If developing countries hope to raise their standards of living, however, they need to import savings.

Blaming our deficits on the rest of the world is no more correct than blaming ourselves. International markets continuously allocate resources in response to saving and investment decisions made around the globe. The worldwide pattern of current account balances results from the interaction of all of those decisions.