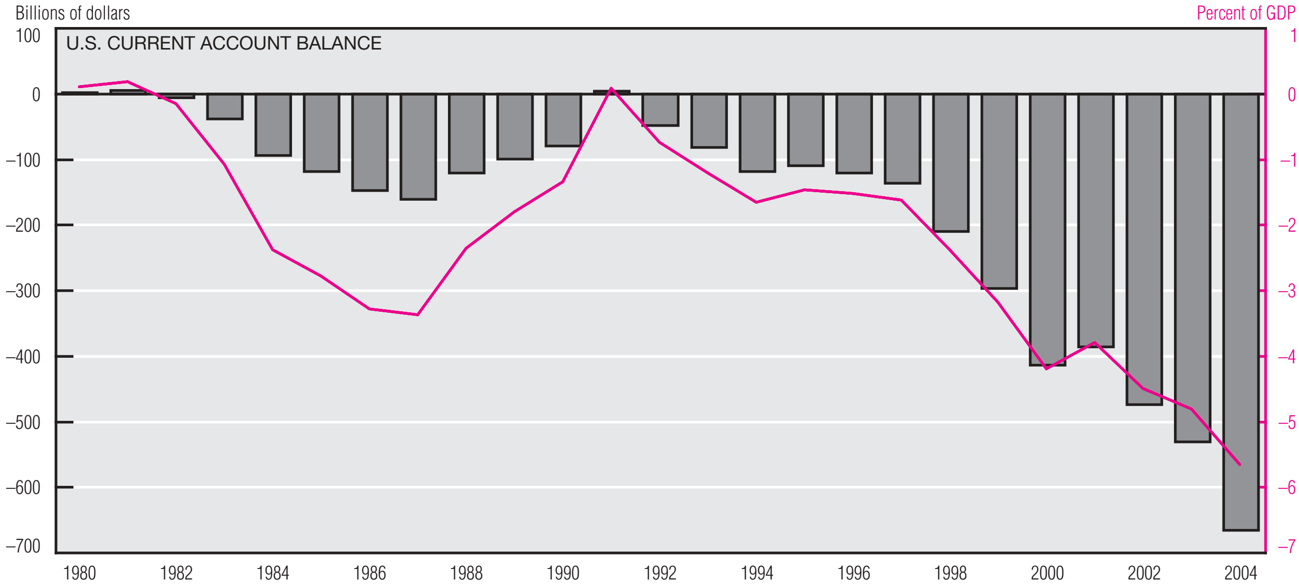
The U.S. Current Account in a Global Context



U.S. Balance of Payments[a]

	Billions of U.S. dollars		
	2003	2004	Change, 2003–04
Current account	–530.7	–665.9	–135.3
Financial flows	545.8	615.5	69.7
Official	250.1	358.1	108.0
Direct investment	–133.9	–133.0	0.9
Other	429.6	390.4	–39.2
Capital account[b]	–3.1	–1.5	1.6
Statistical discrepancy	–12.0	51.9	63.9

Global Current Account Balances[a]

	Billions of U.S. dollars		
	1996	2003	Change, 1996–2003
U.S.	–120.2	–530.7	–410.5
Other industrial countries	166.4	188.4	22.0
Developing countries	–87.5	205.0	292.5
Asia	–40.8	148.3	189.1
Latin America	–39.1	3.8	42.9
Middle East and Africa	5.9	47.8	41.9
Eastern Europe and former Soviet Union	–13.5	5.1	18.6
Statistical discrepancy	41.3	137.2	95.9

a. Figures may not sum because of rounding.
b. Capital account transactions consist of capital transfers (which include debt forgiveness, migrants' transfers, and other capital transfers) and the acquisition and disposal of nonproduced nonfinancial assets (which include sales and purchases of such nonproduced assets as the right to natural resources, as well as sales and purchases of such intangible assets as patents, copyrights, trademarks, franchises, and leases).
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and Federal Reserve Governor Ben S. Bernanke, "The Global Savings Glut and the U.S. Current Account Deficit," Sandridge Lecture, Virginia Association of Economics, Richmond, March 10, 2005.

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.