GLOBAL IMBALANCES

Discussion

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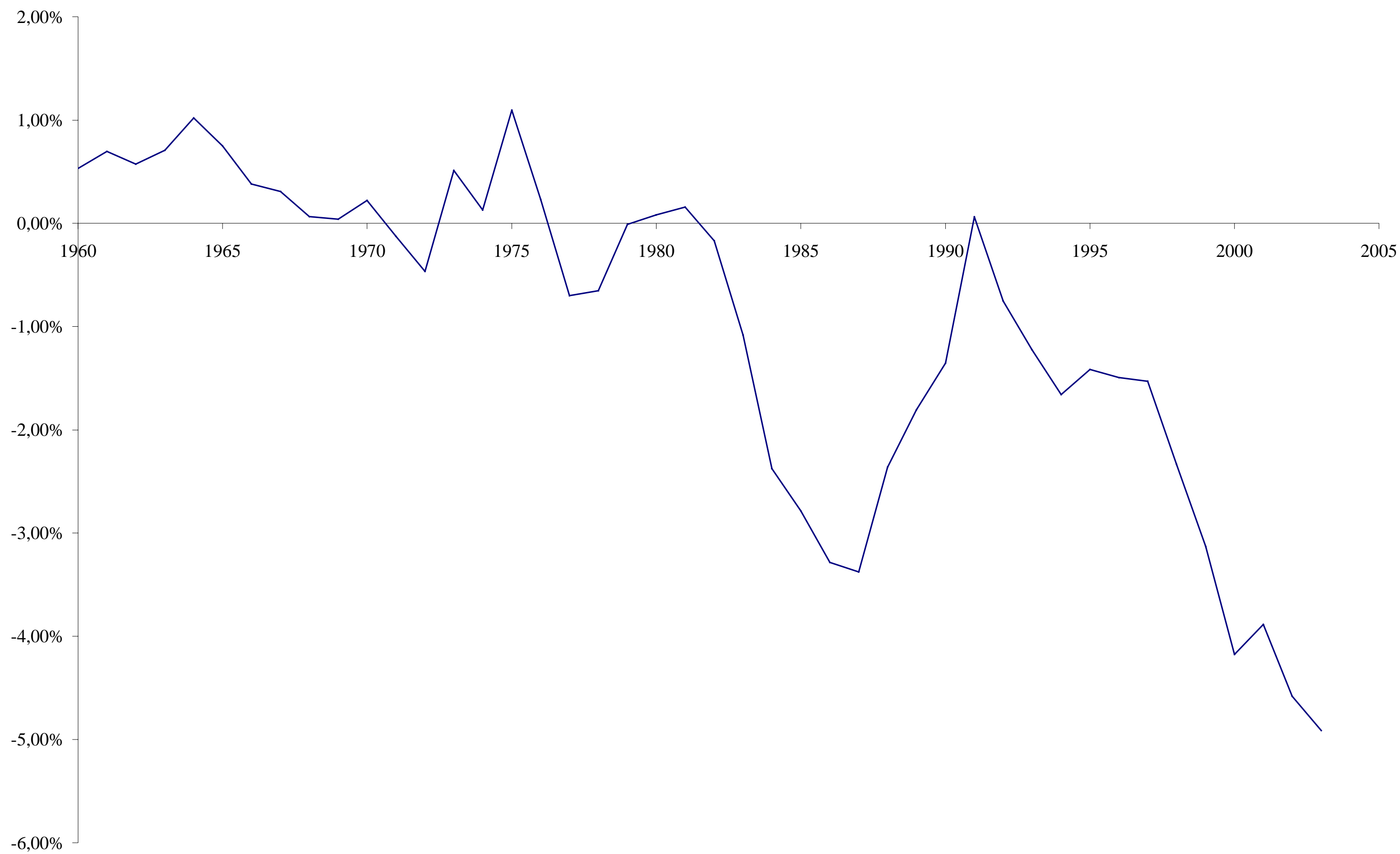

US CURRENT ACCOUNT SURPLUS (as share of GNP)
2,00%
1,00%
0,00%
-1,00%
-2,00%
-3,00%
-4,00%
-5,00%
-6,00%
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005

THE REVIVAL OF BRETTON WOODS

- China has excess labor supply that needs to be endowed with sufficient capital and brought to the market economy.
- But this leads to a US trade deficit and a labor market “problem” (unemployment? costly relocations? …).
- China compensates the US:

    1. Financing the US trade deficit through the purchase of US government securities; and
    2. Repressing wages at home and allowing US capitalists to take advantage of this.

- This state of affairs can go on for more than a decade!

IS CHINA REALLY A PROBLEM FOR THE US?

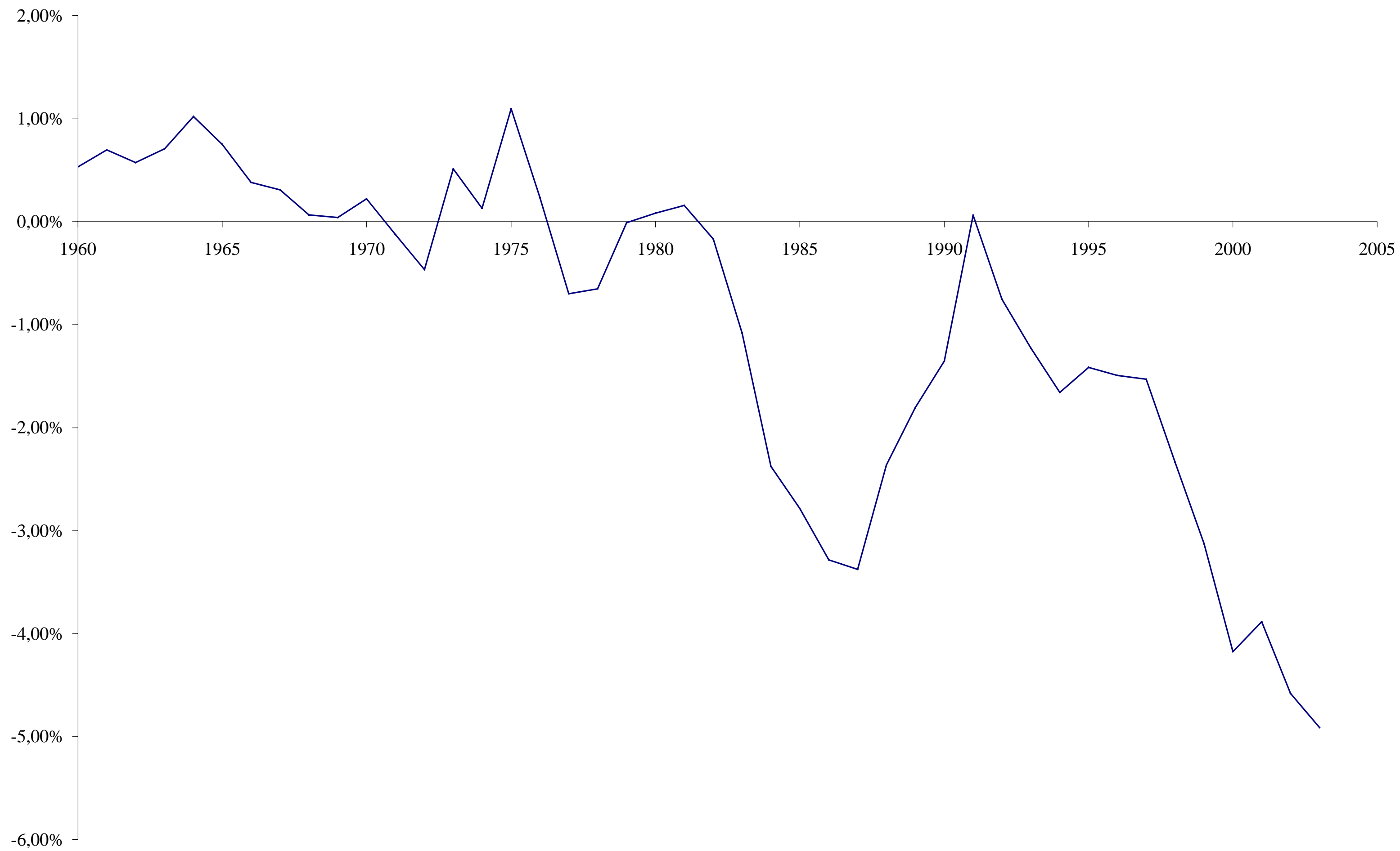
HYPOTHESIS #1: The emergence of China leads to trade deficit

Are the new Chinese workers net savers? If so, are their savings important quantitatively for the US? What is the evidence on this?

HYPOTHESIS #2: Trading with China creates a problem in the labor market

Are China and the US producing the same range of goods? If not, shouldn't we expect the US terms of trade to improve? What is the evidence on this?

Additional thought: Unclear connections between this view of the recent US current account deficit and the original Bretton Woods system.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THE DYNAMICS OF US NET FOREIGN LIABILITIES

- ASSUMPTION: the dynamics of net foreign liabilities can be characterized statistically as the sum of a small number of shocks.

- Using sophisticated econometric techniques, Corsetti and Konstantinou “retrieve” these shocks from the data with minimal assumptions.

- Findings:

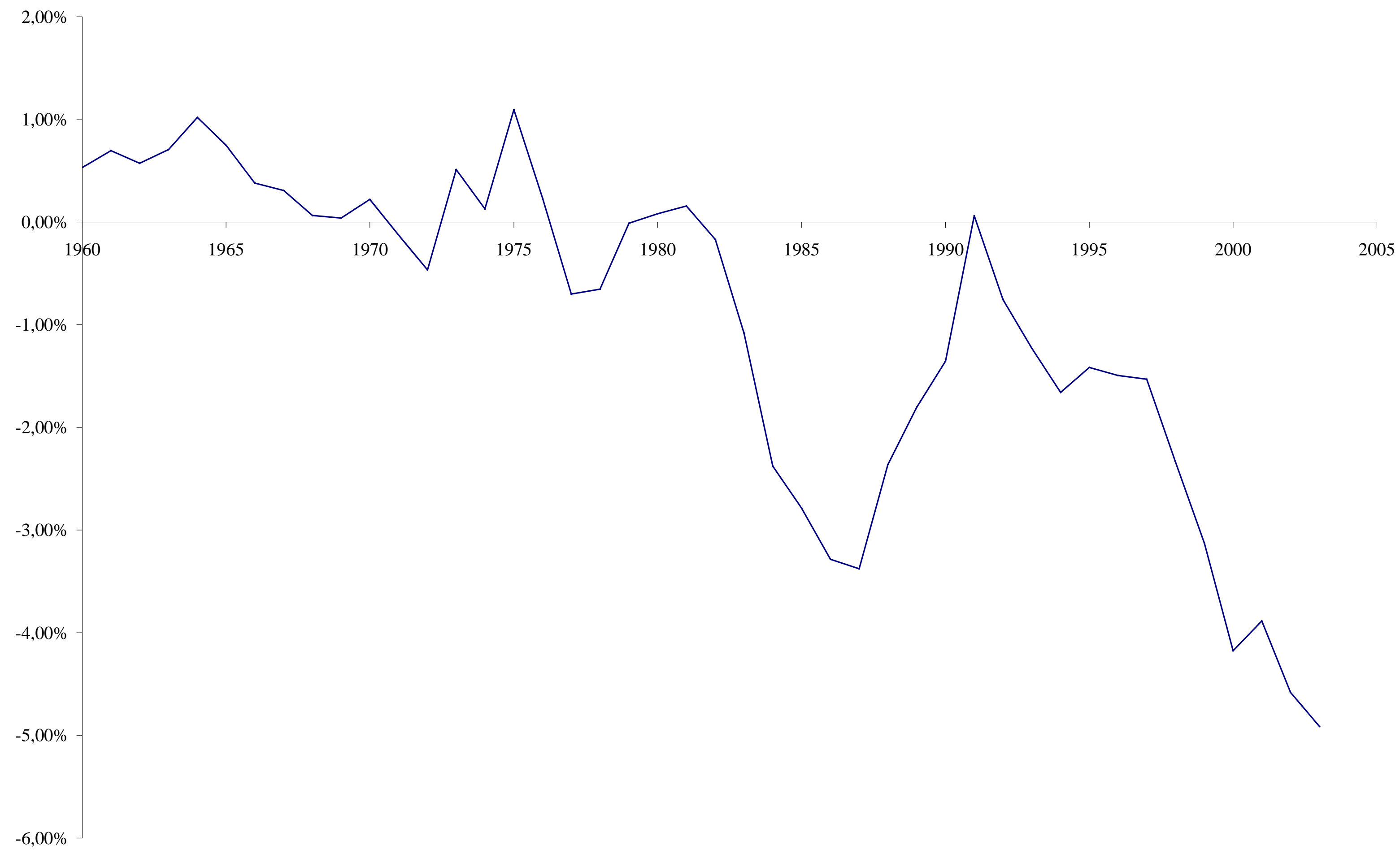
  1. A *transitory* shock that raises net foreign assets explains around 15 percent of its variance in the short run and, by construction, nothing in the long run. (Wealth or income shock?)

  2. A *permanent* shock that lowers net foreign assets explains about 80 percent of its variance in the short run, and 70 percent in the long run. (Technology or productivity shock?)

- How can we interpret the US current account deficit from the perspective of these two shocks? (I’m going beyond the paper, of course)

- A negative wealth or income shock? The market value of the US capital stock grew by US$40 in the 1990s from 1992 to 1999! (Although … traditional vs. new theory)

- A positive technology or productivity shock? It is hard to find in direct measures of productivity, and it also seems inconsistent with evolutions in the stock market.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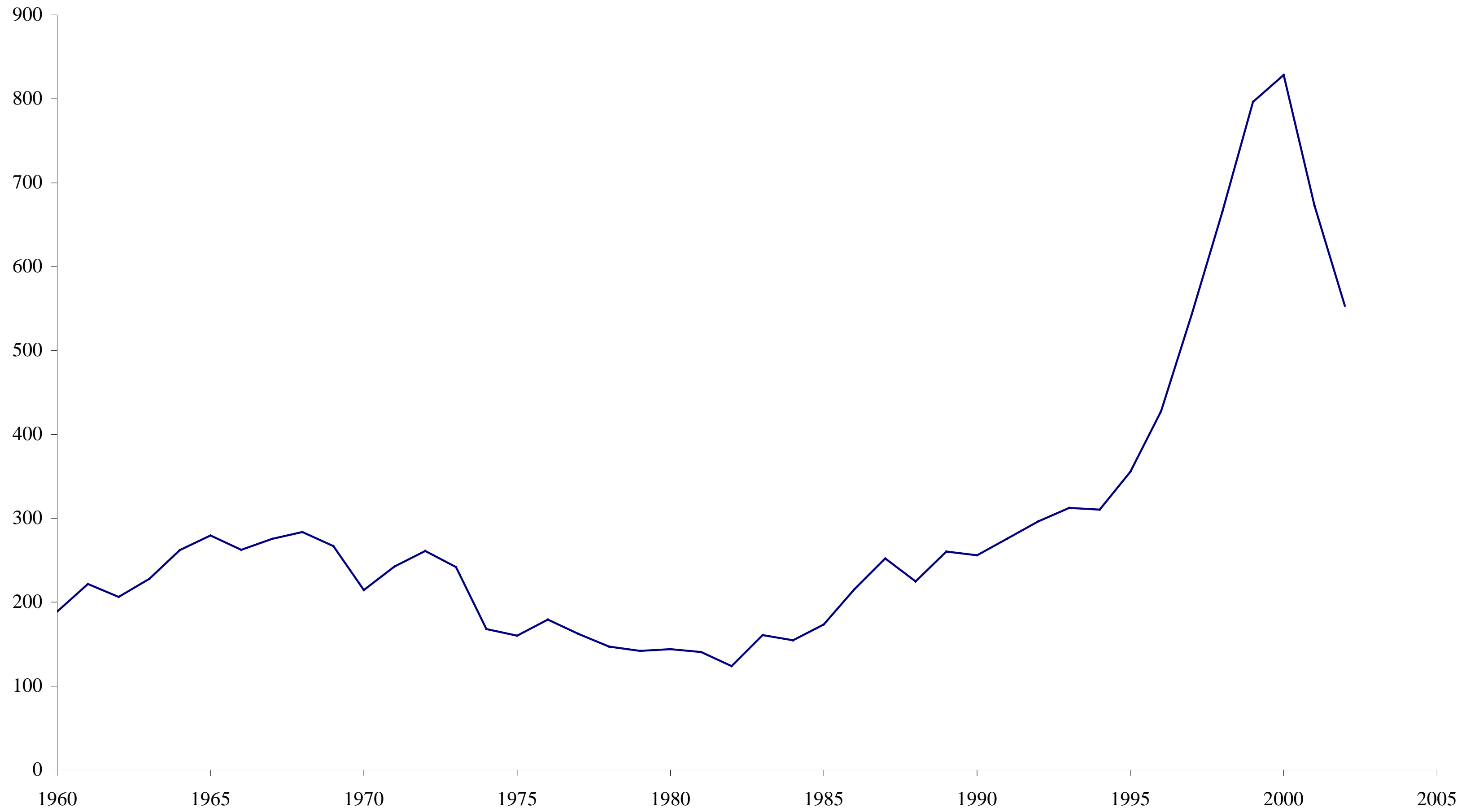
YET ANOTHER STORY

- The *emergence* of the US current account deficit is an outgrowth of the asset bubble of the 1990s.

- This is non-standard current account deficit, i.e. sell bubbles and cash in rents.

- Should we worry about a bubble-driven reduction in net foreign assets? NO, it is only an accounting gimmick! (If the bubble bursts, the net foreign asset position vanishes with it)


S&P500 Share Price Index (CPI Deflated)
900
800
700
600
500
400
300
200
100
0
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005

- But there has been a *transformation* of the US current account deficit in the 2000s. It is now the result of the US budget deficit.

- This is classic or standard current account deficit, i.e. spend now and pay later.

- Unlike the 1980s, the rest of the world (mainly central banks in East Asia) is willing to take on debt at current interest rates.

- Should we worry about a fiscal-driven deficit? YES, of course. When the rest of the world stops rolling over US debt, we will enter a world of high interest rates and/or strong US fiscal adjustment.

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1,00%
0,00%
-1,00%
-2,00%
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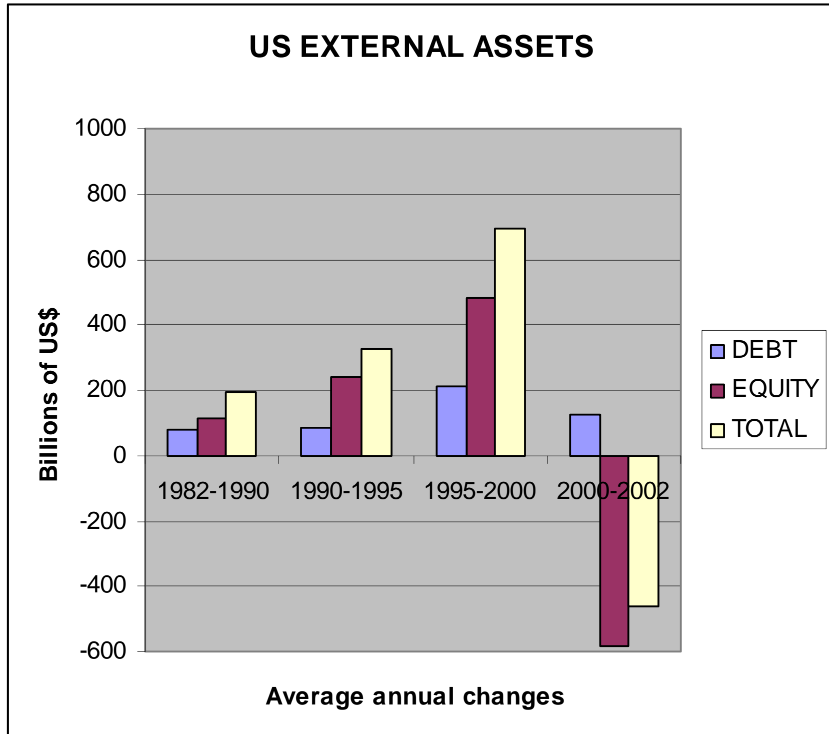
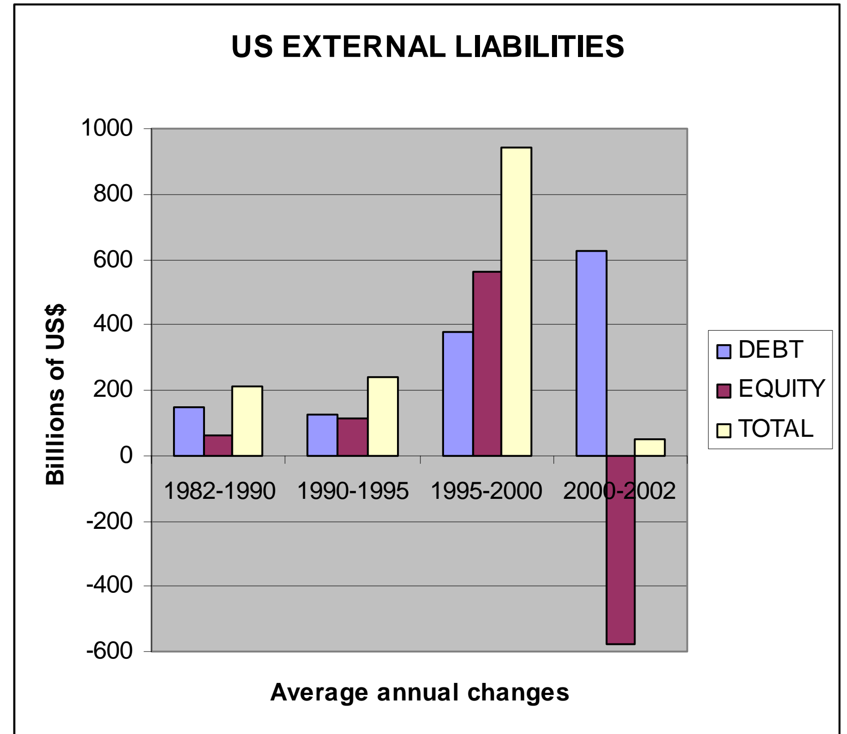

US EXTERNAL ASSETS
1000
800
600
400
200
0
-200
-400
-600
Billions of US$
1982-1990
1990-1995
1995-2000
2000-2002
DEBT
EQUITY
TOTAL
Average annual changes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