

# Capital Flows in the United States

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# Capital Flows – An Overview

- What are capital flows?
- How are they measured?
- How have capital flows evolved over time in the United States?
- Is being a net debtor sustainable?
- What is the relationship between public debt and fiscal deficits?

# The Balance of Payments and its Different components

# The Balance of Payments

- In the U.S., international transactions are recorded by the Bureau of Economic Analysis (BEA) in the balance of payments.
- The balance of payments has three components:
  - The financial account (change in international ownership of assets)
  - The capital account (any other financial transactions)
  - **The current account**

# The Current Account

- Current Account = Trade Balance + Income Balance + Net Unilateral Transfers
- Trade Balance = Goods Balance + Services Balance
- Why is the current account important? It tells us if a country is a net debtor or net lender
- Has the U.S. been a net debtor or lender historically?

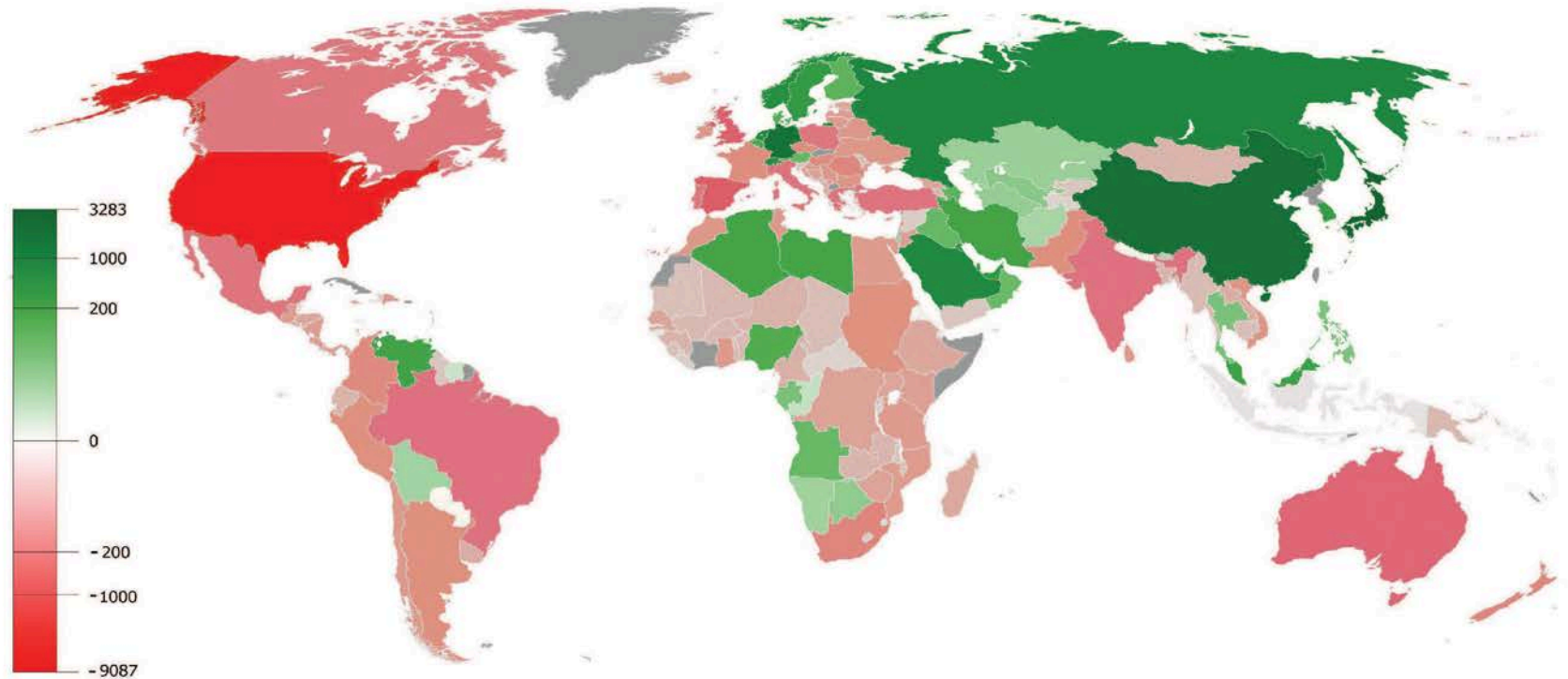
# Deficits and Surpluses

- Who are the U.S.'s main trading [partners](#)?
- If the U.S. is running a large current account deficit, some other countries must be running current account surpluses. Why?

$$\text{Current Account (U.S.)} + \text{Current Account (Rest of the World)} = 0$$

- So who is running big current account surpluses?

# Cumulative Current Account Balances Around the World: 1980-2012, Billions of U.S. Dollars



Source: International Macroeconomics Ch. 1: Global Imbalances, Schmitt-Grohé, Uribe, Woodford, 2018

# Can a Country Run a Perpetual Current Account Deficit?

- In the absence of valuation changes, the change in the **net international investment position** (external financial assets minus liabilities **NIIP**) is the current account:

$$\text{Current Account}_1 = \text{NIIP}_1 - \text{NIIP}_0$$

- Similarly, in period 2 we have:

$$\text{Current Account}_2 = \text{NIIP}_2 - \text{NIIP}_1$$

- Assuming that  $\text{NIIP}_2 = 0$ , and combining the previous two expressions to eliminate  $\text{NIIP}_1$ , we obtain:

$$\text{NIIP}_0 = -\text{Current Account}_1 - \text{Current Account}_2$$

- If  $\text{NIIP}_0 > 0$  (initial positive asset position), the country can run current account deficits in both [periods](#).



# From the Current Account to Public Debt

# U.S. Public Debt since 1952



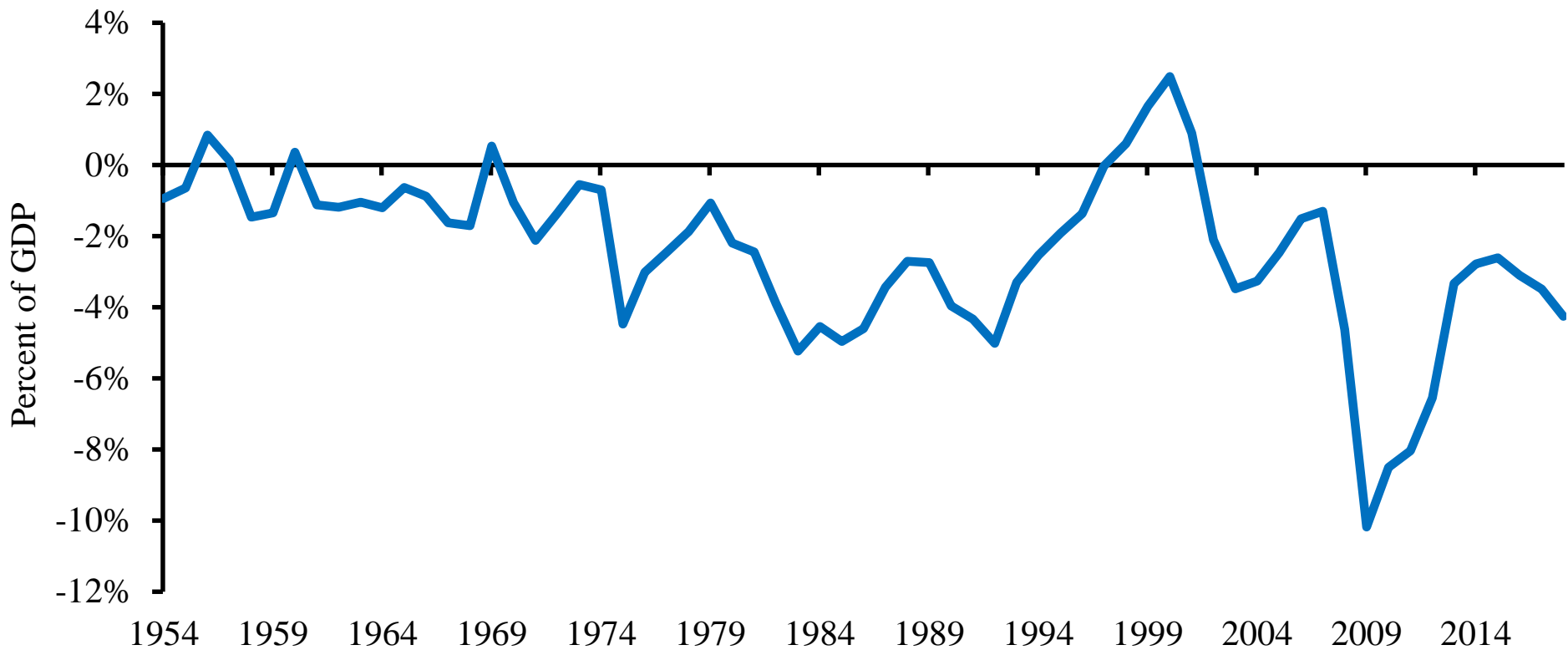
Source: U.S. Treasury, BEA, Haver, author's calculation

# From External Debt to Fiscal Deficits

# The Fiscal Balance

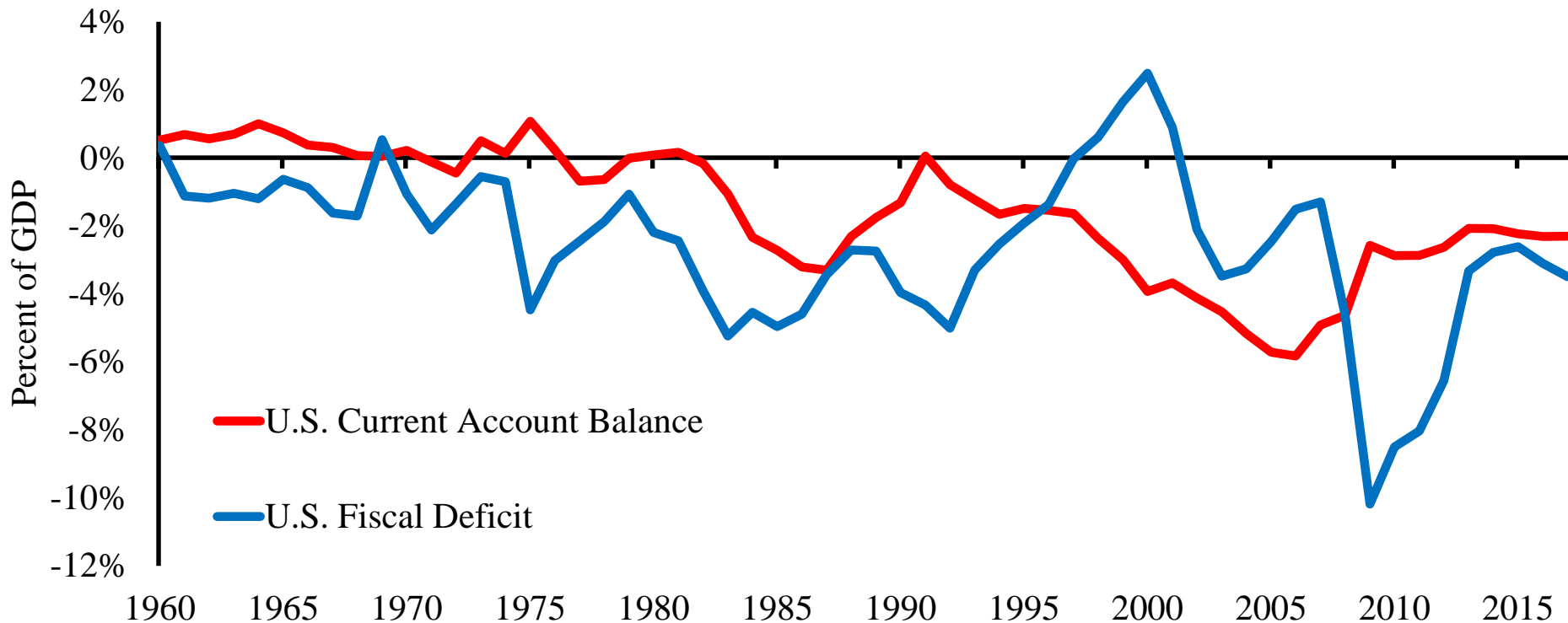
- Fiscal Balance = Government Income - Government Expenditure
- Government debt: accumulation of fiscal deficits
- Government expenditure includes the service of the debt
- Is there a relationship between the fiscal and CA deficit?

# U.S. Fiscal Balance since 1954



Sources: U.S. Treasury, BEA, Haver, author's calculations

# U.S. Twin Deficits since 1960



Source: U.S. Treasury, BEA, Haver, author's calculations

# Key Takeaways

- The U.S. current account deficit is sustainable
- From an economist's perspective there is no need for trade wars
- No systematic correlation between current account and fiscal deficit

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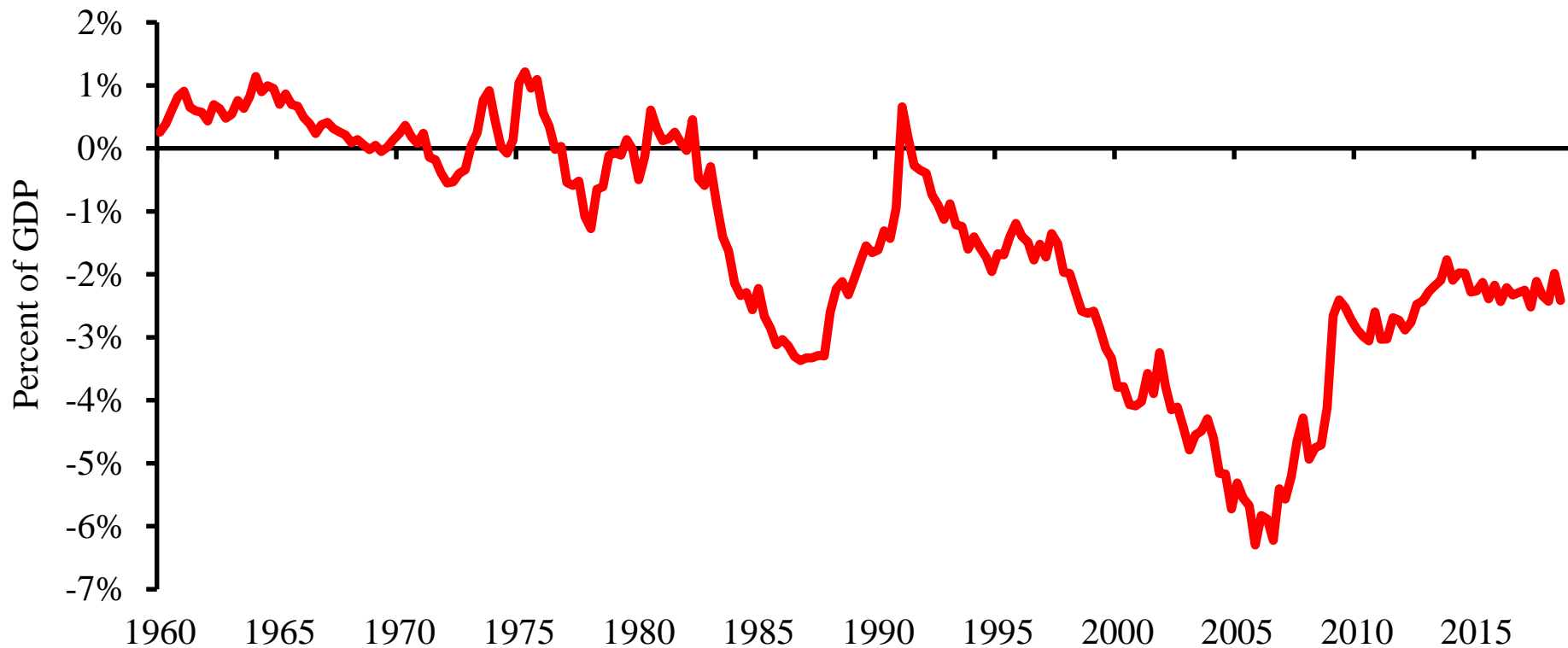
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## ECONOMY MUSEUM





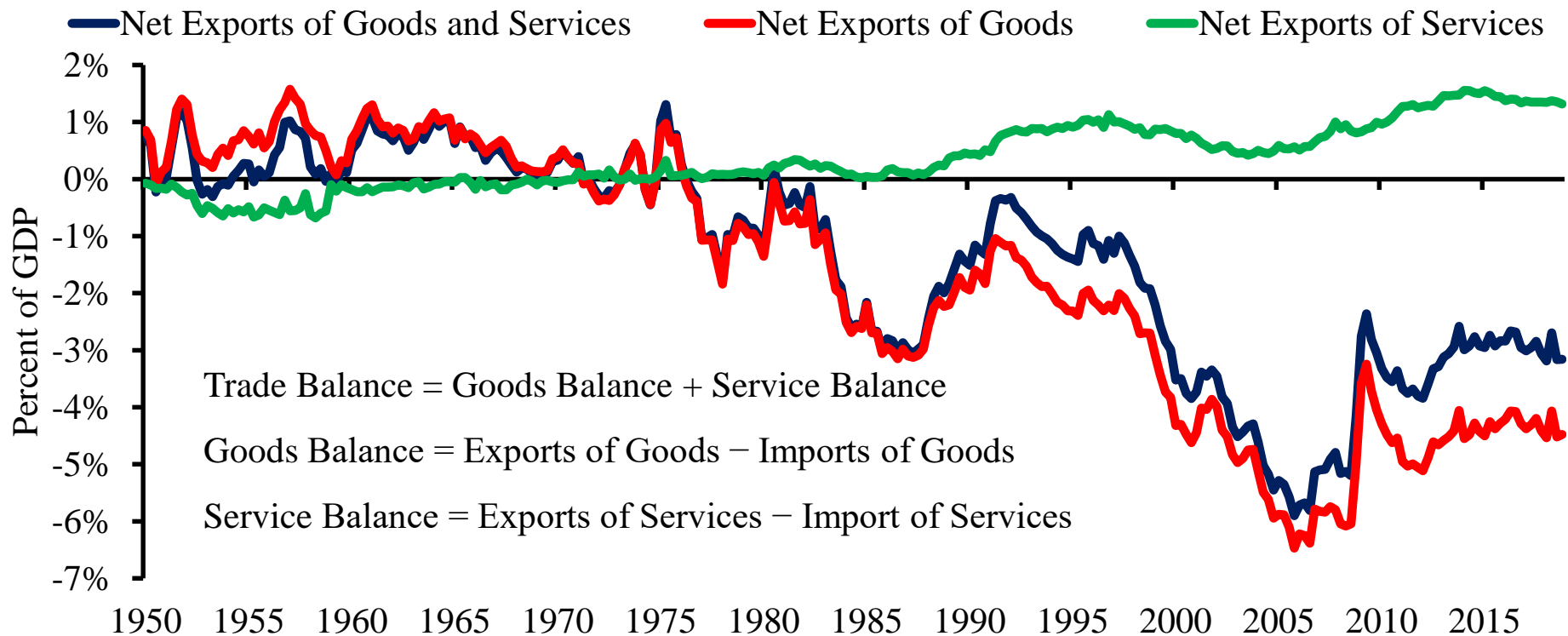
# U.S. Current Account since 1960



[The Current Account](#)

Sources: BEA, author's calculations

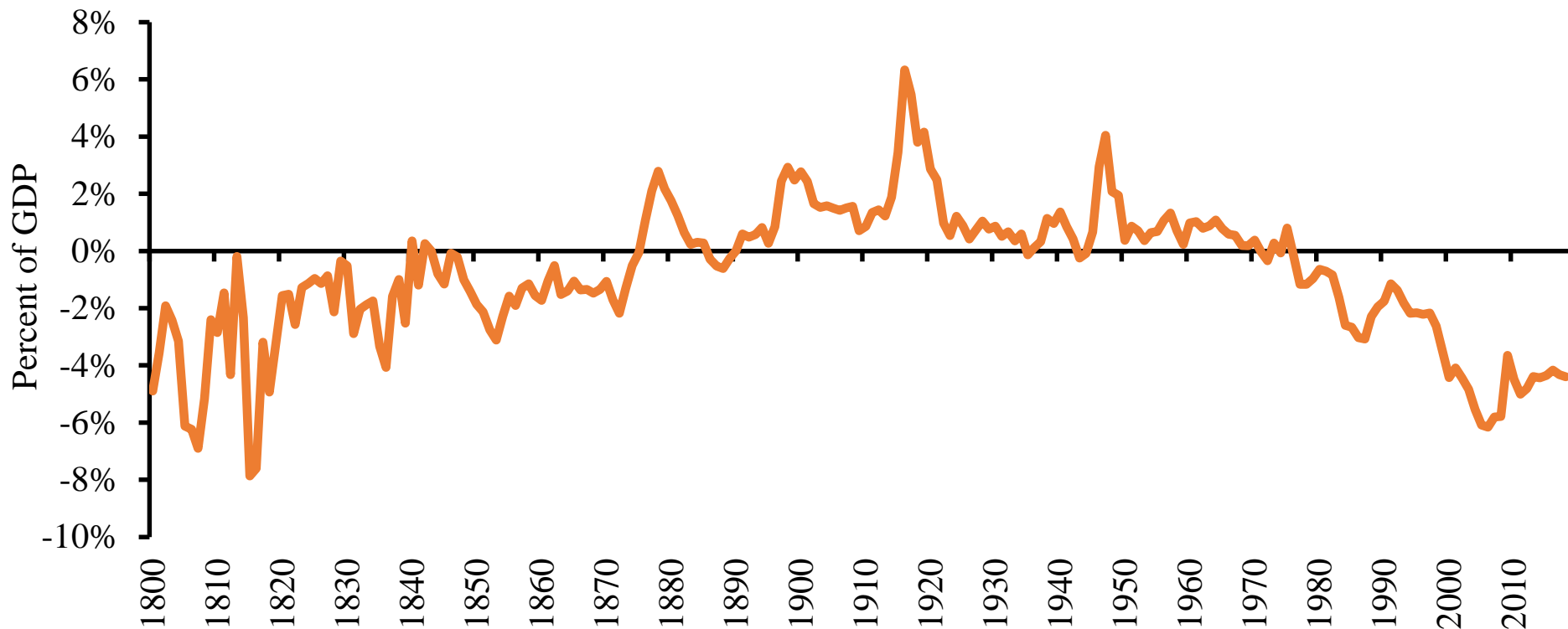
# U.S. Trade Balance since 1950



[The Current Account](#)

Sources: BEA, author's calculations

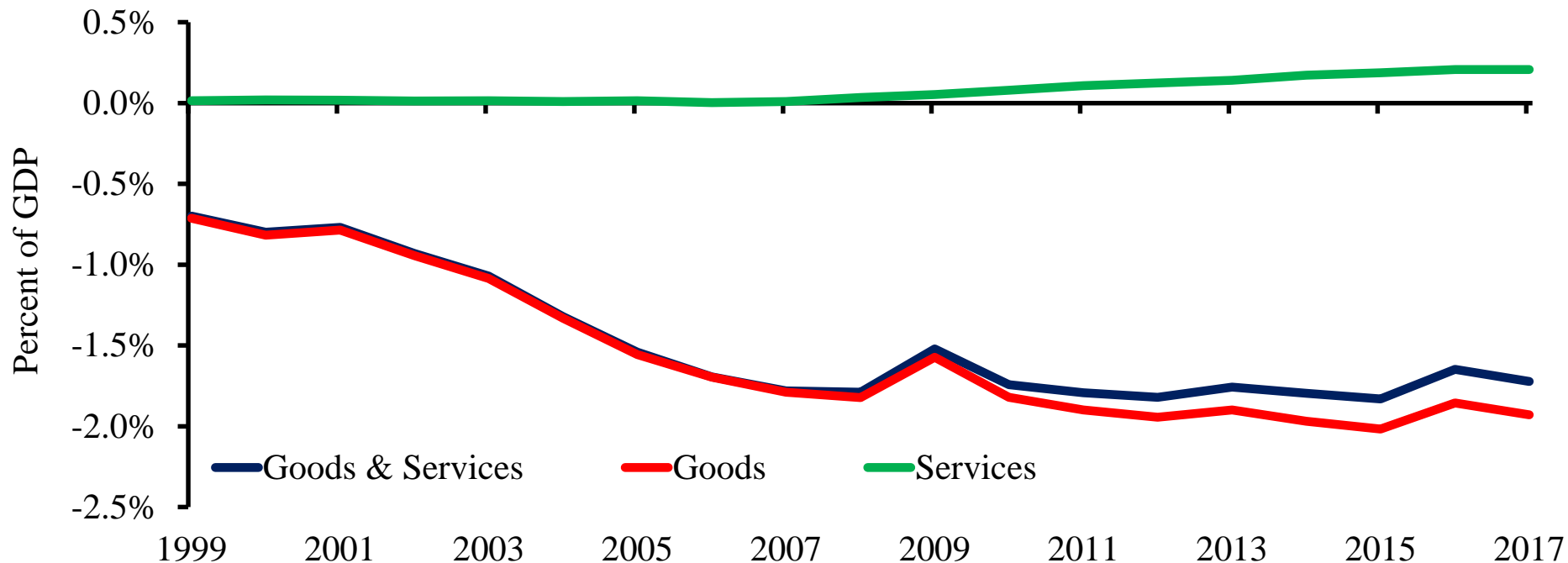
# Historical U.S. Goods Trade Balance



[The Current Account](#)

Sources: World Trade Historical Database, Measuring Worth, BEA, author's calculations

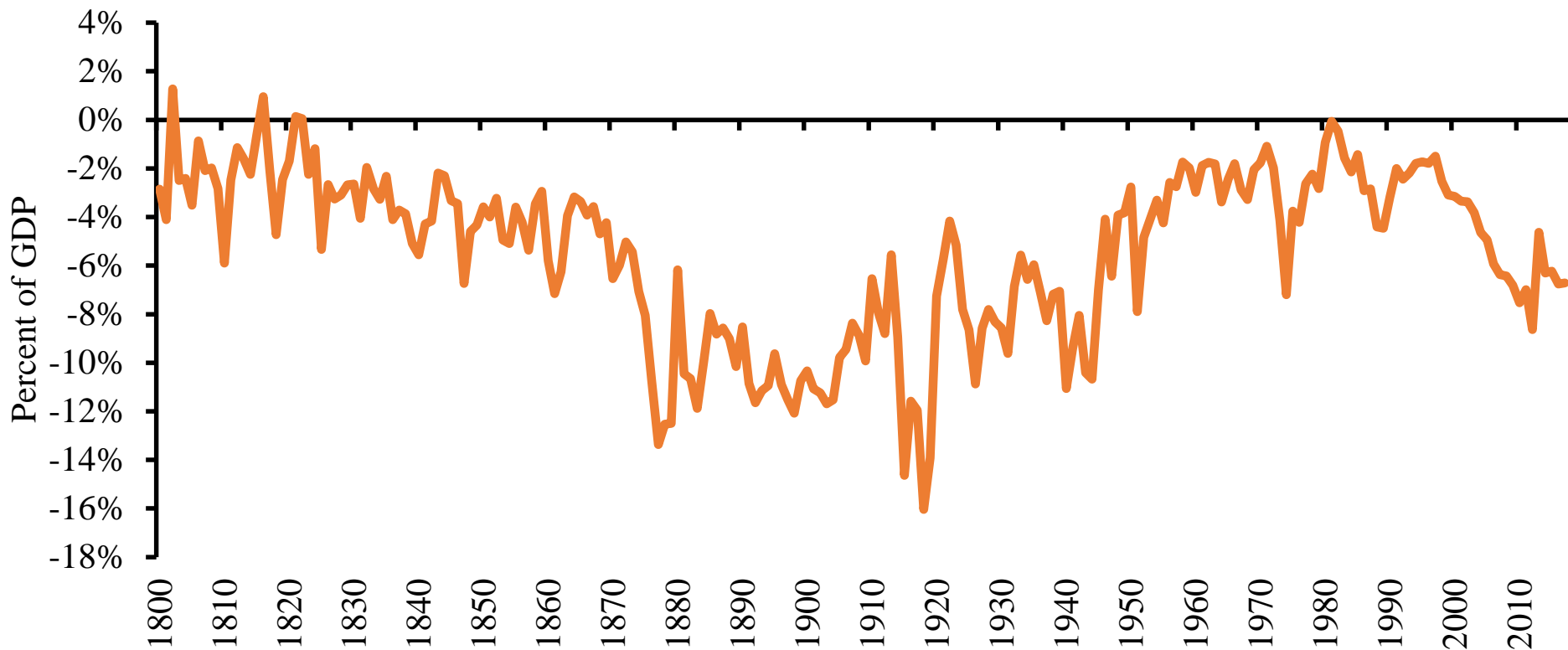
# U.S. Trade Balance with China



[Deficits and Surpluses](#)

Sources: Census, BEA, author's calculations

# Historical U.K. Goods Trade Balance



[Perpetual Deficit](#)

Sources: Correlates of War, World Trade Historical Database, Measuring Worth, OECD, author's calculations