The dollar and Wall Street seem to have forgotten about the US current account deficit. Is this wise?

Raw numbers suggest not. Economists expect the deficit this year to reach $777bn, 6.2 per cent of GDP, and to stay at 6 per cent of GDP next year.

Financing such a huge deficit requires enormous sales of US assets - equivalent to selling a company the size of McDonald's every two weeks. So far, foreigners have been happy to buy. Indeed, in the first quarter, they bought more US bonds and shares than goods.

If, however, foreign demand for US assets were to falter, things would get ugly. The dollar and share prices will have to fall, and interest rates rise, to levels at which foreign demand is forthcoming.

The danger seems an obvious one. And, says Brad Setser, an economist at University College, Oxford, it has "received too little attention."

He points out that, even if the deficit does start to narrow after next year, US net foreign debt could rise to 60 per cent of GDP by 2020 - it is currently 21 per cent. To keep the dollar high, and interest rates low, foreign demand for US assets must, therefore, carry on growing.

But, says Mr Setser, at least one source of such demand could fade away. China's undervaluation of the renminbi and buying of dollars, he says, is causing repressed inflation. This is inefficient - because it distorts relative price signals - and, hence, unsustainable. Eventually, says Mr Setser, China will revalue the renminbi which will, in turn, reduce China's need to buy dollars.

History provides more reasons to worry about the deficit. Caroline Freund and Frank Warnock, two US academics, have studied current account turnarounds in 26 developed countries since 1980. In most of these, they say, current account improvements were accompanied by slower growth and falling exchange rates. The notion that the US can grow its way out of the deficit - by increasing exports - therefore has few historic precedents.

So it seems obvious - we should worry.

Or should we? Let's redescribe the numbers. This year's deficit is just 2.4 per cent of non-American GDP, and probably less than 1 per cent of non-American wealth. Assuming non-Americans save around 10 per cent of their incomes, the deficit will soak up only a quarter of the flow of non-American savings. As the US represents a quarter of world GDP, this doesn't seem excessive.

Indeed, the fact that the world's savings are huge at just the same time that the US is running a whopping current account deficit is no coincidence. Ben Bernanke, a governor at the Federal Reserve, says that the US deficit is caused by the "global savings glut".

Developed economies outside the US have ageing populations and few profitable investment opportunities. And the financial crises in emerging economies between 1998 and 2003 have forced these to increase their savings and cut investment. Much of the non-American world, then, is saving more than it is investing. By definition, this means that it is running a current account surplus. And if most of the world has a surplus, someone else must have a deficit.

One killer fact supports this view. Real interest rates in the US - and indeed around the world - are very low. Yields on longer-dated inflation-proofed Treasury bonds are under 2 per cent. This suggests that the US current account deficit is the result of too much non-American saving, rather than too little American saving.
Now, one interpretation of Mr Bernanke's analysis is that the deficit is nothing to worry about, because the non-American savings that are causing it also provide a ready means of financing it.

This view, though, is too hasty. Even if you believe Mr Bernanke's account, there are three reasons to worry.

One is simple maths. If US foreign debt does rise to 60 per cent of GDP, Americans will have to spend around 3 per cent of their income each year paying interest on that debt. That means that they'll have to cut their spending relative to income sometime.

Also, there's something grossly inefficient about capital flowing from less developed economies into developed ones. Capital should flow to where returns on it are highest. And returns are highest where capital is scarcest. This means that capital should flow from the capital-abundant US to capital-poor China, not vice versa.

Third, even if common sense does tell us that the US's deficit is sustainable for a while, so what? Financial markets don't always listen to common sense. It's entirely possible that worries about the deficit could become self-fulfilling - if some investors sell US assets for any reason, others might start worrying about how the deficit will be financed, with the result that a crisis develops.

And there's plenty of precedent for this. The Asian crises of 1998 taught us that deficits look easy to finance - until suddenly they become impossible.

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