

Can the united states continue to run current account deficits indefinitely

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The U. S. A Current Account Deficit The U. S. A Current Account Deficit The surplus of savings over investments that the U. S. A makes in various parts of the world has benefited it by providing the supply of funds. The availability of this surplus of savings to the U. S. A has been due to the willingness of foreigners to loan the savings to it by way of acquiring U. S assets like the Treasury securities. The loans have enabled the U. S. A to sustain its current account deficits. According to Summers (2004), the United States had a fall in its rate of savings and a rise in the rate of domestic investment. Nations with high saving rates like China and Japan have afforded the United States with inflows that have made it possible for the United States to increase its current account deficit.

However, analysts are of the opinion that the rising level of United States current account deficit may become unsustainable and risky thus make the large foreign investors consider shifting their investments in the United States loan securities away to other nations. It is also likely that the consequence of the persistent United States foreign debt may be making it a politically weak nation and reliant to large investors like China.

According to Carbaugh (2011), the purchase of the United States current account deficit can continue indefinitely because the desire of foreigners for the American loan assets may not stop. The United States has a history of having run current account deficits continuously from 1820 to 1875 (McKinnon, 2001). Its economic growth by then solely remained reliant to foreign debts. Furthermore, the United States saving rate is lower than that of its main trading partners like China and Japan. All these factors make the United States current deficit likely to be persistent indefinitely as long as

they remain present.

References

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