



[America must save more](#)

Laurence Kotlikoff our guest wrote on Oct 15th 2010, 12:46 GMT

THE US is saving less than nothing, indeed, -1.5% of national income in 2009. A reasonable domestic net investment rate, and one we had a few years back, is 8% of national income. But if we Americans aren't saving anything, we can't invest anything. In recent years, foreigners, fortunately, have been making up the difference. This is why the US has been running huge current account deficits. Our current account deficit is simply the difference between what foreigners invest in the US and what we Americans invest abroad. If more capital flows in from abroad than flows out, the difference shows up as net imports. So our failure to save is producing major trade imbalances.

If we keep saving so little, we'll continue to run current account and trade deficits. This will be true regardless of whether we try to fix our exchange rate or let it float. Economics isn't ultimately about pieces of paper of different colors and how many are printed. It's about fundamentals. And America's fundamentals look fundamentally awful. This may be dawning on foreign investors. Last year the current account deficit fell by 40%, and this decline in net foreign investment in the US, coupled with the drop in our national saving rate, translated into a domestic investment rate (net domestic investment as a share of national income) of only 1.9%. This is the lowest rate of domestic investment since 1934!