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living BEYOND our means

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Individuals and families are very familiar with what **“living beyond our means”** can involve. It can be fun for a short while, but a family that consistently spends more than it earns will deplete its savings and build up increasing amounts of **debt.** And families cannot live beyond their means forever – at some point, lenders will start charging increasingly **higher interest rates** on the family’s borrowing and eventually stop making new loans altogether. At that point, family members will find they cannot spend what they earn on things they need – interest charges and eventual repayment of the principal will cut into their spending, leading to a **reduced standard of living.**

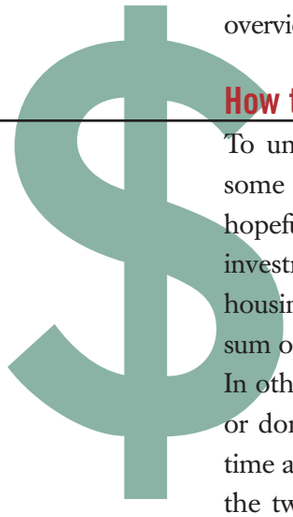
Elder care spending

Countries are different from families and individuals in fundamental ways, but the basic principle still holds that if a country lives significantly beyond its means now, it is likely to have a lower standard of living in the future than would otherwise have been attainable. In recent years, we in the United States have arguably been spending beyond our means. The income we earn from exports has been much less than we spend on imported goods and services, producing large deficits in what is known as the current account. Concurrently, our federal government has been spending much more than it receives in tax revenue, resulting in large budget deficits. As a consequence of these shortfalls, we run the risk of reducing our prospects for future growth in living standards.

Both the current account deficit and the federal fiscal deficit, often dubbed the "twin deficits," are symptoms of living beyond our means. A deficit in the federal budget results in increased government debt, which in turn requires higher future taxes or lower government spending than would otherwise be the case. A deficit in the current account must be balanced through inflows of foreign savings. In some ways, a current account deficit is a good thing: it allows us temporarily to consume and invest more than we could based on our own income alone. It may also signal that the United States is viewed as a desirable investment destination. But, as we discuss below, it is unlikely that growing deficits of the magnitude we have recently been experiencing can be sustained. Making a gradual transition to smaller deficits through some combination of faster world growth, increased U.S. savings, and slower U.S. consumption would make this situation less of a problem, but it is possible to envision more abrupt and difficult transitions.

In this essay, we first provide the basic conceptual background, starting with

some elements of national income accounting. We show how the two deficits are related to each other, and how they may be affected by public policy and private actions that impact economic behavior. We then cover the facts about the two deficits – their magnitude and their recent history. Next comes the question of sustainability and the long term consequences of the deficits. We conclude with an overview of the current situation and the dilemma faced by policymakers.



How the Deficits Are Related

To understand how the two deficits are related, one cannot avoid learning some rudiments of national income accounting. Here, we provide a brief and hopefully painless primer. The key relationship to consider is that all the investment in our economy (that is, expenditures on long-lived assets such as housing, factories, office buildings, and equipment and software) must equal the sum of national saving plus savings inflows into the United States from abroad. In other words, investment must have some source of funding – either foreign or domestic. Investment is vital to the ability of an economy to expand over time and improve the living standards of its citizens. And, as we will see below, the two sources of funds for investment spending are closely related to the two deficits.

National saving is the sum of private saving – that is, saving by households and businesses – and government saving. Government saving (or dissaving) equals the combined surpluses (or deficits) of all levels of governments in the United States, although, typically, state and local governments operate with some form of balanced budget requirement. Thus, when government dissaving is discussed, the government in question is typically the federal government. An increase in the budget deficit equals a rise in government dissaving of the same amount, but such dissaving does not necessarily result in a decrease in national saving. For example, if households save all of a tax cut that increases the budget deficit, then the increase in private saving exactly offsets the decrease in government saving, leaving overall national saving unaffected.[1] The empirical evidence indicates, however, that most of an increase in a budget deficit is not saved but results in decreased national saving.

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The current account position – whether surplus or deficit – largely reflects our trade balance, that is, the value of exported goods and services less the value of imported goods and services, although the net balance of income earned here


Military spending

by foreigners and income earned abroad by U.S. residents, among other factors, figures in as well. The value of U.S. imports currently exceeds the value of our exports by a significant amount; the resulting trade deficit represents nearly all of the current account deficit, with the net income balance a positive.[2] Any shortfall in the current account must be balanced by an equivalent change in the sum of U.S. investments abroad, less the sum of foreign investments in the United States. This balance is known as the net international investment position of the United States. Because the United States has run a current account deficit for many years, our net international investment position has turned increasingly negative, as Figure 6 shows (page 20).

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Are the budget deficit and the current account deficit really "twins"? Suppose, for a moment, that investment spending and private saving were held constant. In this case, an increase in the budget deficit would be offset by an increase of the same magnitude in the current account deficit, since investment spending is equal to national saving plus net capital inflows. In this case, the two deficits really would act in identical ways – they would grow and shrink over time by the same amount. Of course, in reality, investment spending and private saving are not constant, and so the two deficits do not move in lockstep with each other.

It is instructive to analyze the consequences for investment and saving of a change in one of the deficits. Consider the case of an increase in the budget deficit. Suppose that neither private saving nor the current account deficit were to change. In this case, private investment would have to drop by exactly the same magnitude as the increase in the budget deficit. Because investment in new productive capacity is a key determinant of economic growth and improve-

ments in living standards, crowding out of investment over a long period is clearly not desirable. The decrease in investment could be avoided, at least in part, if either the current account deficit or private saving were to increase. And both of these events could well occur. An increase in the budget deficit does not in itself reduce the profitability of new domestic investment projects. So, if an increase in the deficit results in a reduction in the funds available from domestic sources to finance new investment, upward pressure on the rate of return to investment will help to draw in funds from abroad (increasing the current account deficit) and will also potentially increase the rate of private saving. If the economy is operating with some slack, an increase in the deficit might also stimulate aggregate demand and increase the profitability of investment.

Next, consider the case of a decrease in the current account deficit. Unless national saving increases, investment must decrease by the same amount that the current account deficit decreases. Of course, a change in the current account deficit does not occur on its own but instead results from changes in the economic environment such as a lower budget deficit or higher private savings.

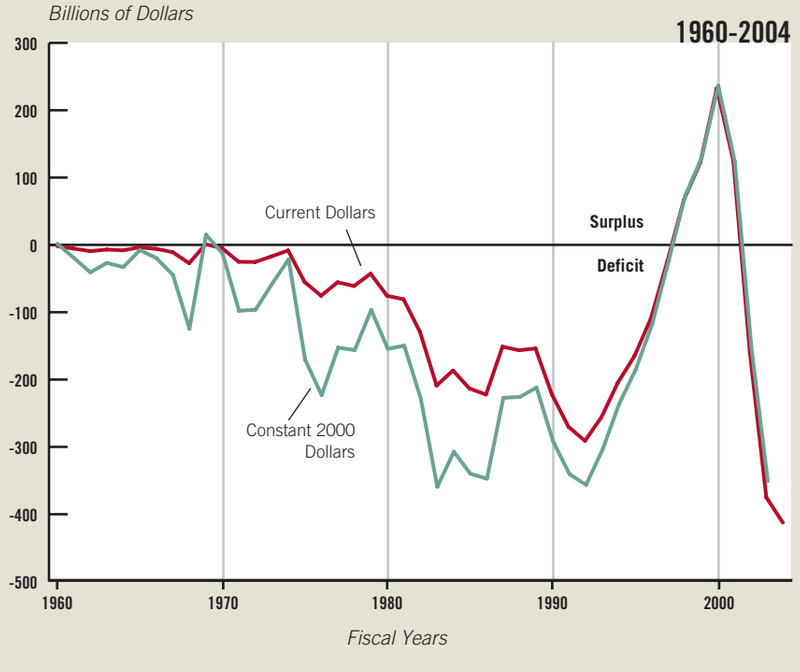
It is important to stress that national income accounting identities are not models of economic behavior. The fact that investment equals the sum of national saving plus inflows of foreign savings does not allow us to predict how investment and saving will evolve over time. But it does provide a constraint on the co-movements of investment, national saving, and the current account deficit. And knowledge of that constraint can be quite useful in evaluating the potential consequences of deficits in the budget and in the current account.

The Federal Fiscal Deficit

Recent headlines have announced that the federal budget deficit is running at record levels. In a sense this is true: as Figure 1 shows, at $413 billion, the 2004 deficit easily exceeds the 1992 deficit of $290 billion. But, after adjusting for inflation (the green line in the figure), the 2004 and 1992 deficits are of roughly the same magnitude. The current size of the 2004 deficit is greater than that of the 1992 deficit simply because the value of today's dollars relative to 1992 has been eroded by inflation. But, while this helps us

FIGURE 1

Federal Budget Surplus (Deficit)



National Saving = Private Saving + Government Saving

Government Saving = Federal + State + Local Budget Surpluses

U.S. Investment = National Saving + Foreign Savings Inflows to the U.S.

Trade Deficit = Imports – Exports

Current Account Deficit = Trade Deficit + Net Income Flows from Abroad

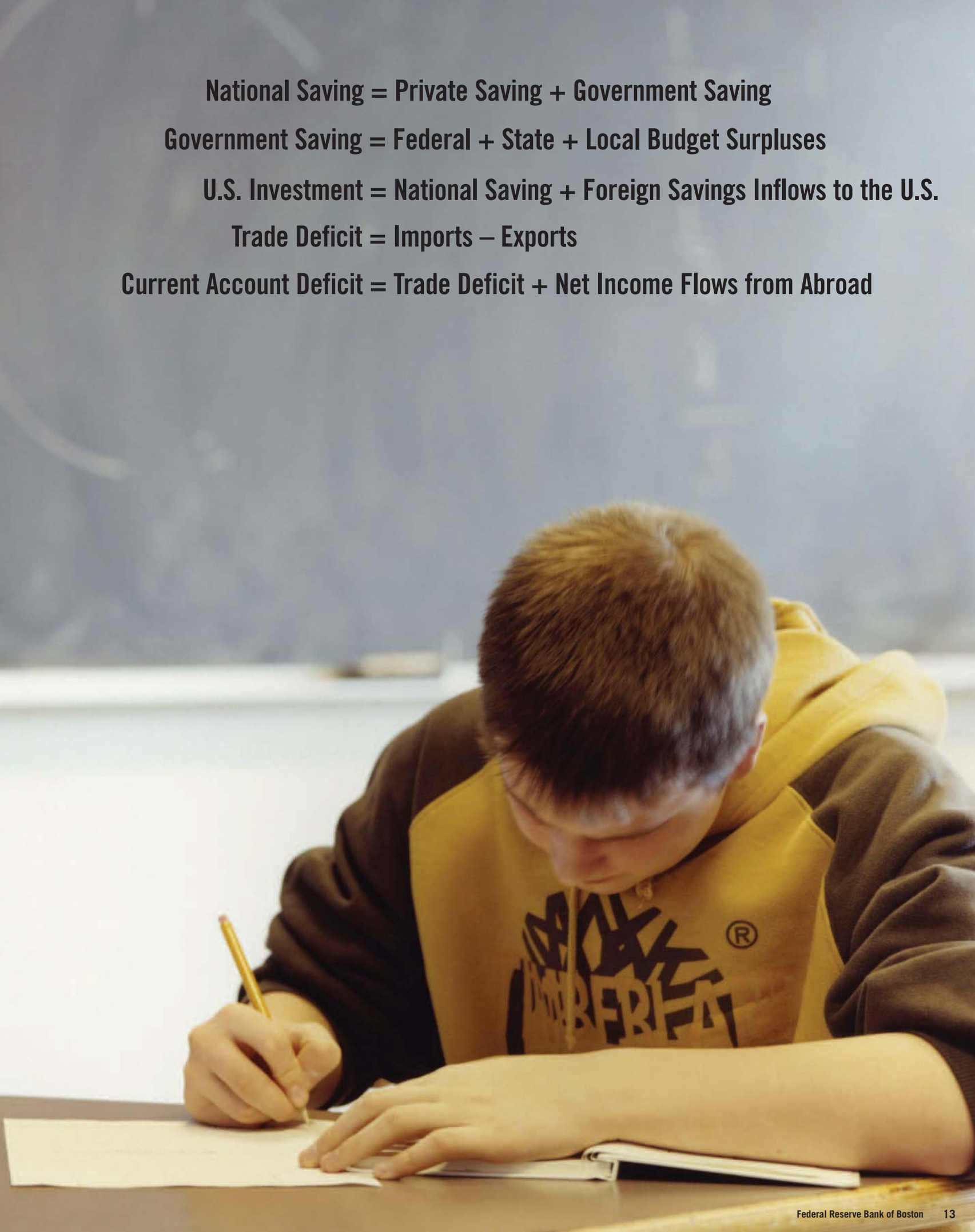
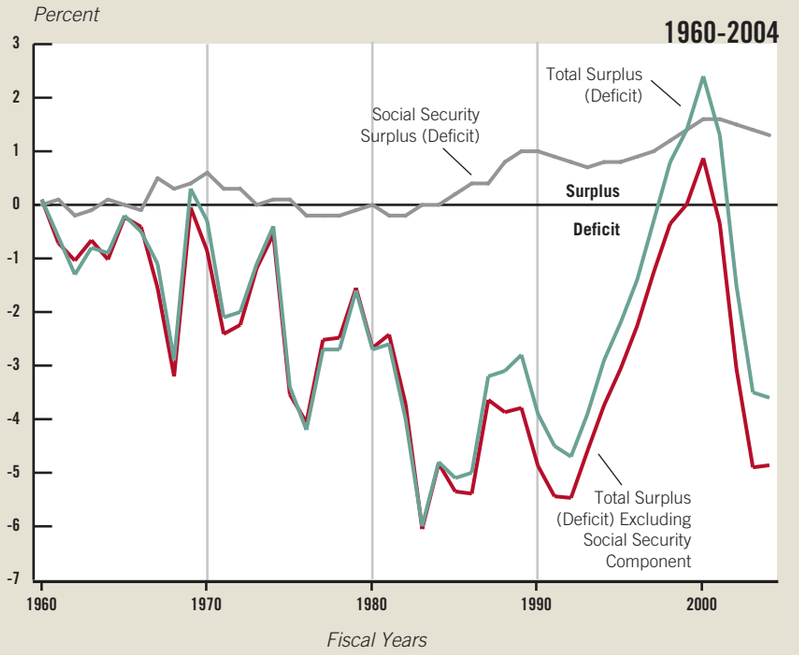


FIGURE 2

Federal Budget Surplus (Deficit) as a Percent of GDP



understand current headlines, it doesn't say much about the size of the deficit, which is, of course, relevant only in today's dollars.

A more informative view of the deficit can be gleaned by examining the deficit relative to the size of the economy, as shown by the green line in Figure 2. Just as a household is able to safely handle more debt as its income rises, the ability of the U.S. economy to generate the tax revenue needed to pay interest on government debt increases as national economic income grows. From this perspective, the current budget situation does not seem quite so bad. The 2004 budget deficit was 3.6 percent of GDP, a much smaller fraction of national output than the deficit in 1992 (4.7 percent of GDP) or 1983 (6.0 percent of GDP).

Unfortunately, however, several other factors make today's fiscal situation much more serious than the size of the deficit relative to GDP would indicate. First, the deficit would be much larger, 4.9 percent of GDP, if it were not for a sizable surplus in Social Security – a surplus that is the direct result of the increase in payroll tax rates designed to prepare the Social Security system for the surge in benefit payments that will result as baby boomers retire. As the gray line in Figure 2 shows, Social Security has been in surplus since 1985. The Social Security surpluses have been deposited into the social insurance trust funds and invested in nonmarketable Treasury securities. In essence, the trust funds are providing a loan to the rest of the federal government – a loan that will have to be paid back with interest as baby boomers collect their Social Security benefits. The Social Security surplus is forecast to gradually diminish, and, beginning in about 2018, Social Security will start to pay out more in benefits than it receives from payroll taxes.[3] Once this happens, Social Security will start exerting upward pressure on the magnitude of the unified federal budget deficit. Payroll taxes to cover Medicare expenditures are currently in a surplus position as well. Over time, however, such expenditures are also expect-

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ed to increase more rapidly than related tax revenues, creating a deficit problem that many analysts see as greater in size, and more difficult to control, than that associated with Social Security.

A second reason for concern about the current fiscal situation is the failure of the political process so far to enact measures that might credibly be expected to bring the budget back close to balance. The budget deficits of the early 1980s and early 1990s resulted in legislative actions that worked toward reducing the budget deficit. Although a case can be made that fiscal stimulus was needed to facilitate the recovery from the 2001 recession, the need for such stimulus has now passed, and actions similar to those of the 1980s and early 1990s are needed.

A third reason for concern over the fiscal situation is closely tied to both the first reason – that the budget deficit is much larger once one subtracts the Social Security and Medicare surpluses – and to the large current account deficit: the nation needs to prepare economically for the retirement of the baby boom generation. As the boomers retire, the fraction of the population that is in the workforce will likely decrease. In addition to the fiscal problems this creates for our retirement-related social insurance programs, the increase in economic dependency creates a more fundamental economic problem. There will be fewer workers per consumer. Maintenance of living standards requires that each worker produce more. In other words, increased labor productivity is necessary. And investment in new technology and equipment is a key factor in labor productivity growth. The funds for such new investment must come either from national saving or from abroad, through current account deficits. By dragging down national saving, the large federal budget deficit has made us much more reliant on financial flows from abroad for funding our domestic investment. And that brings us to the current account deficit.


Health care spending

The Current Account Deficit

The current account deficit (shown by the red line in Figure 3), was over 6 percent of GDP in late 2004, the largest current account deficit ever recorded for the United States. Recall the national accounting identity stating that investment must be equal to the sum of national saving plus savings inflows from abroad. Or, equivalently, that the current account deficit is equal to the difference between total investment and national saving. This implies that mirroring the large current account deficit is an equally large gap between investment (the gray line in Figure 3) and national saving (the green line in Figure 3).

Examination of the recent history of the current account, national saving, and investment reveals an interesting picture. During the 1960s and 1970s, the current account balance was usually relatively small – national saving and investment were generally roughly equal in magnitude. That changed in the 1980s. A large deficit in the current account emerged as national saving lagged during the recovery from the 1980-81 recession, and investment spending increased. Given the dynamics of investment and foreign and national savings flows, causality is sometimes hard to determine. Still, it seems clear that the Reagan era tax cuts produced large federal budget deficits and put downward pressure on national saving. Thus, many came to view the current account deficit as being largely caused by the fiscal deficit, and the "twin deficits" view of the current account and budget deficits became popular. Defenders of the tax cuts maintain

FIGURE 3

Current Account Balance as a Percent of GDP

Showing Net Domestic Investment and Net Domestic Saving as a Percent of GDP

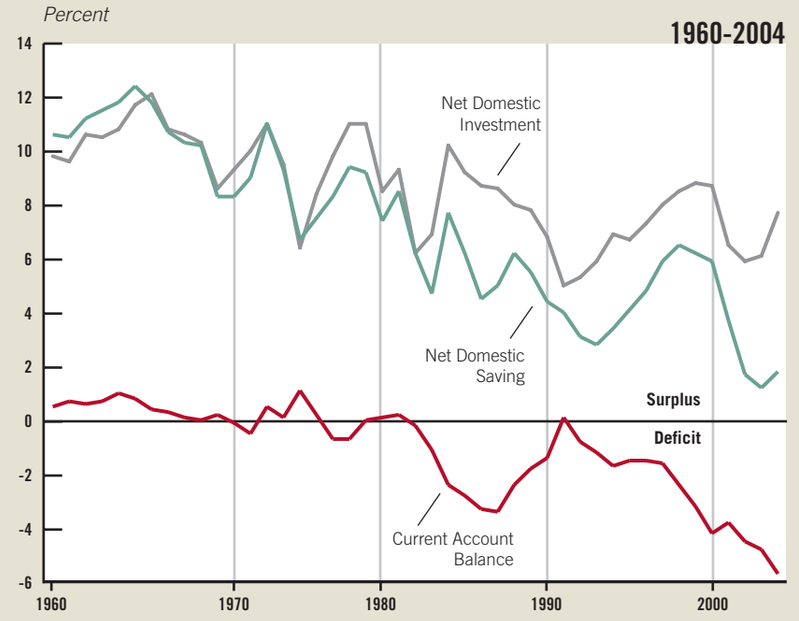
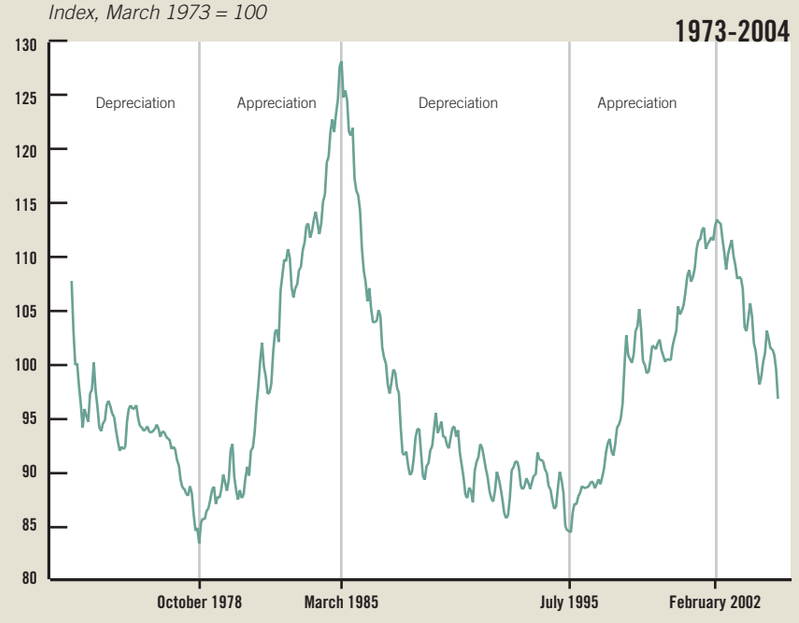


FIGURE 4

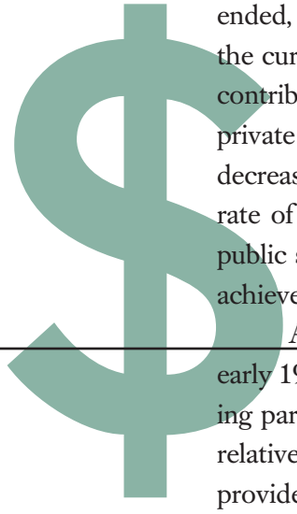
Trade-Weighted Exchange Value of the U.S. Dollar



that the more favorable tax climate helped to promote business investment. In their view, the current account deficits were driven mainly by the more favorable investment opportunities in the United States relative to the rest of the world. And, of course, interest rates and the value of the dollar, both of which are discussed below, played a role as well.

In the 1991 recession, national saving outpaced investment, and the current account came back into balance. Since then, however, there has been a fairly steady increase in the current account deficit measured as a share of GDP. During the 1990s, economic growth was accompanied by both an investment boom and a radical improvement in the federal fiscal position. But private saving decreased (relative to GDP), and national saving was not sufficient to fund all of the nation's investment.

Both investment and national saving decreased as the late 1990s boom ended, but saving fell by a much greater amount than did investment, sending the current account into record-breaking territory. Large federal tax cuts have contributed to the recent decrease in national saving as has a sizable decline in private savings. If the current account deficit is to be narrowed without a decrease in investment, then national saving will need to increase. Unless the rate of private saving increases by much more than expected, an increase in public saving – that is, a reduction in the budget deficit – will be necessary to achieve the required increase in national saving.



At the same time that the current account deficit was emerging in the early 1980s, the dollar appreciated sharply relative to the currencies of our trading partners (Figure 4). By decreasing the price of foreign goods and services relative to those produced in the United States, an appreciation of the dollar provides a boost to imports, but it makes U.S. exports less competitive in international markets. This tends to increase the trade deficit and probably the overall current account deficit as well.

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The sharp run-up in the foreign exchange value of the dollar in the early 1980s was followed by an equally sharp fall in the value of the dollar later in the same decade. This fall made U.S.-produced goods and services cheaper relative to those produced abroad. The quantities of goods and services imported and exported generally change more sluggishly than do exchange rates, and so initially a depreciation of the dollar may be accompanied by an increase in the trade


Infrastructure improvements

deficit. But, as happened in the late 1980s, a sharp depreciation eventually leads to a decrease in the trade deficit.

More recently, in the late 1990s, the dollar experienced a substantial appreciation, as foreign investors bought dollar-denominated assets in order to both participate in the rapidly expanding U.S. equity markets of the time and earn the relatively risk-free returns on U.S. government debt. The resulting rise in the value of the dollar increased both the trade and the current account deficits. Since early 2002, the dollar has weakened and partially retraced the previous appreciation. But, so far, the trade and current account deficits have not narrowed.

Are the Deficits Sustainable?

Although there is considerable controversy about when, and how, narrowing of the current account and federal budget deficits will occur, there is consensus that the projected growth in both deficits relative to GDP is not sustainable. To understand why this is true, one needs to consider the long run consequences of sustained deficits.

Turning first to the federal budget deficit, it is important to remember that federal budget deficits cumulate into increased federal debt. The most meaningful way to express the quantity of public debt is as a percent of national economic output (GDP), as shown in Figure 5. Expressing debt as a percent of GDP is useful because our ability to repay a given amount of public debt depends on the level of national income. In addition, many economists believe that the trend in the ratio of public debt to GDP is a good indicator of the pressure that fiscal policy is placing on long term interest rates.

A quick comparison of Figures 2 and 5 reveals a relationship that is at first surprising: federal debt expressed as a percent of GDP can be falling even

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during a period when the federal government is running sustained budget deficits. But, upon reflection, this is not much of a surprise. If the budget is balanced, then even though the dollar amount of public debt remains constant, the debt to GDP ratio will fall as the economy grows. Similarly, if the government continuously runs a small deficit, then the debt to GDP ratio will still fall as long as the public debt is growing at a slower rate than GDP. Put somewhat more generally, the ratio of overall public debt to GDP will not increase as long as the ratio of the deficit to GDP is no larger than the economy's growth rate.

Federal debt was a little over 55 percent of GDP at the start of the 1960s, largely as a legacy of the huge debt incurred in fighting World War II. The debt to GDP ratio fell through the early 1970s, despite budgets that were generally in the red, because the deficits were small relative to the growth of GDP. The 1980s were a different story – during this decade, the ratio of the federal deficit to GDP generally exceeded the growth rate of GDP, and so the ratio of federal debt to GDP grew.

It was during the 1980s that an increasingly large wedge appeared between the paths of total federal debt and federal debt held by the public (the gap between the green and the red lines in Figure 5). The increasing size of the wedge is a consequence of the Social Security and Medicare surpluses associated with the increase in payroll tax rates implemented in preparation for the retirement of baby boomers. Because these surpluses have been invested in special, nonmarketable Treasury issues, the quantity of Treasury debt held by the public is much smaller than it otherwise would be. This situation will change relatively soon, as the trust funds start to liquidate their holdings to pay the benefits owed to the baby boomers. Because of this expected liquidation, a large increase in federal debt held by the public is likely, even if the federal budget exclusive of Social Security and Medicare is brought into balance. And without focused attention on the deficit, that seems unlikely to occur in the near future.

FIGURE 5

Federal Debt as a Percent of GDP

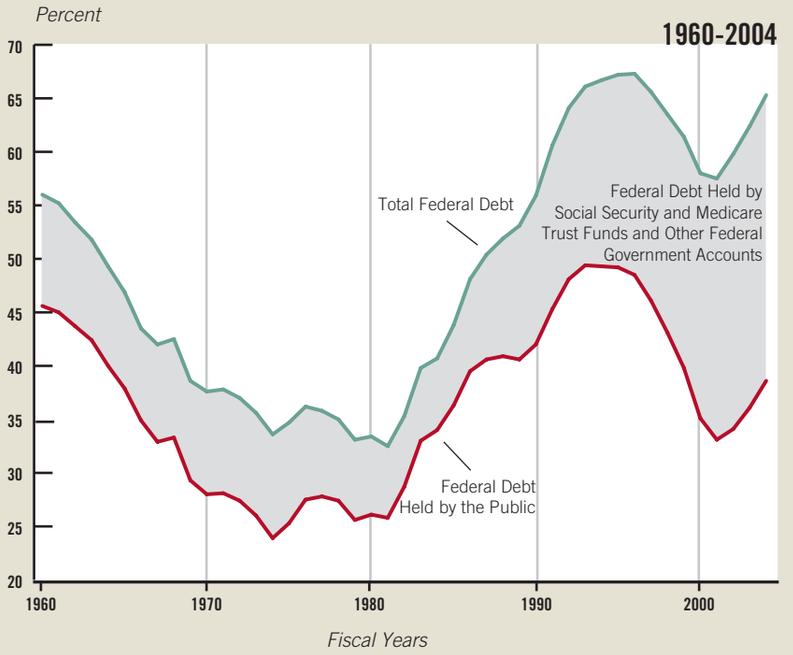
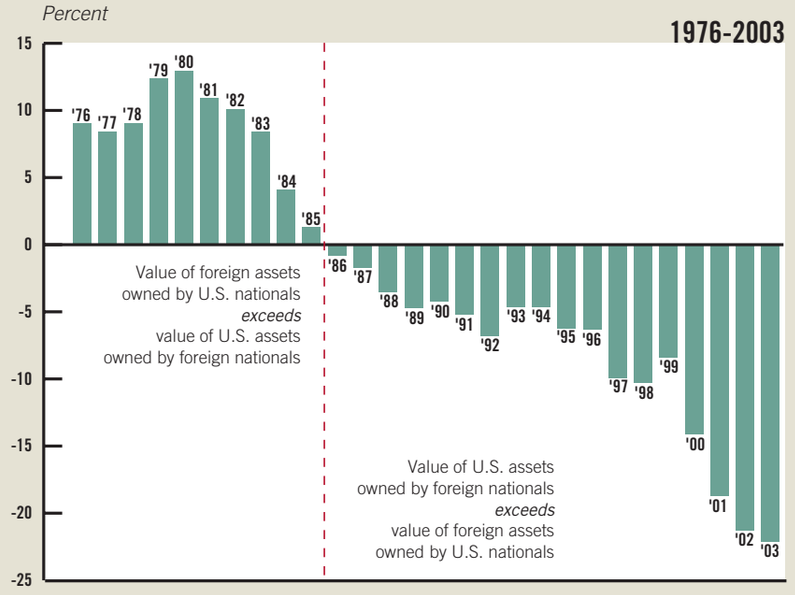


FIGURE 6

Net U.S. International Investment Position as a Percent of GDP



Next, consider the consequences of a sustained deficit in the current account. Just as sustained deficits in the federal budget increase the stock of federal debt, sustained current account deficits increase the net U.S. asset holdings of foreign nationals. As with the federal debt, it is useful to express the net U.S. international investment position (U.S.-owned foreign assets net of foreign-owned U.S. assets) as a percent of GDP; this is shown in Figure 6. The United States had a positive net international investment position until 1986, when it became a net debtor. Since that time, the net international investment position of the United States has deteriorated fairly steadily, with the particularly sharp drop since 1999 reflecting the growing magnitude of the current account deficit relative to GDP.

Even though the net international debt of the United States was over 22 percent of GDP in 2003, the balance on income from assets held abroad was actually slightly in favor of the United States. That is, our income from foreign assets was somewhat greater than the income earned by foreign entities on their U.S. assets, even though our holdings of their assets were considerably smaller than theirs were of ours. This seems surprising at first, but it results from a significantly higher average rate of return earned by U.S. investors on their foreign assets compared with the average rate of return earned by foreigners on their U.S. asset holdings. The difference in relative rates of return is due, in part, to the relatively heavy concentration of low-yielding but risk-free Treasury issues in the U.S. portion of foreign portfolios. Recall that the current account deficit is the sum of the trade deficit (exports minus imports) and the difference between income received in the United States from abroad and income paid from U.S. sources to foreign entities. So, the positive income flow on net foreign investment enjoyed by the United States has worked toward keeping the current account deficit lower than it would otherwise be. If the rates of return enjoyed by U.S. and foreign entities move closer in value (perhaps as a result of a decrease in foreigners' demand for Treasury issues), then there will be further deterioration in the U.S. current account.

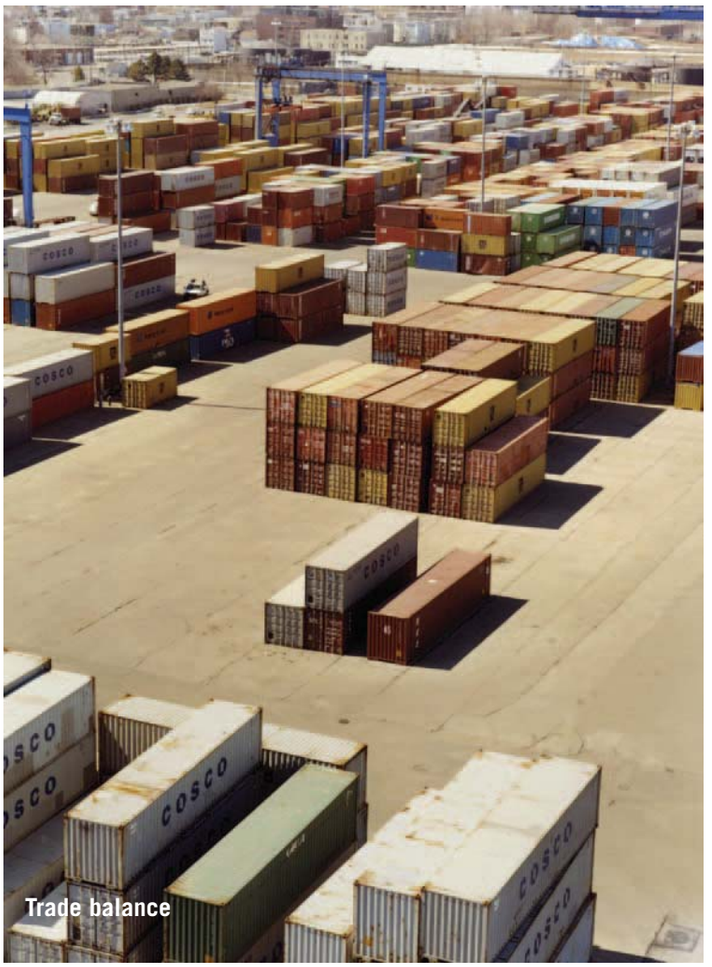
"Just as the budget deficit can saddle us with higher interest charges that must be paid to debt holders, sustained current account deficits eventually create an obligation to pay increasing amounts to the foreign owners of U.S. assets."

Can these rising deficits be sustained? The answer is very clearly, no. If the federal budget deficit continues to grow faster than GDP, there will be continued increases in federal debt relative to GDP. As a result, interest payments on the debt will be an increasing share of federal expenditures, a phenomenon that would very likely be exacerbated by upward pressure on real interest rates created by the increasing public debt itself. At some point, either tax receipts will have to increase (as a percent of GDP), or expenditures (in excess of interest payments on the debt) will have to decrease (as a share of GDP). Otherwise, it would be impossible to pay the increasing interest charges owed on the public debt accrued through past deficits.

Similarly, if the current account deficit continues to grow faster than GDP, there will be continued deterioration in the U.S. net international investment position. If this occurs, the U.S. balance on investment income must at some point become negative, and then increasingly so. The trade balance must eventually improve just in order to maintain a given level of the current account deficit relative to GDP. Just as the budget deficit can saddle us with higher interest charges that must be paid to debt holders, sustained current account deficits eventually create an obligation to pay increasing amounts to the foreign owners of U.S. assets.

As in the 1980s, many argue that, given the depth and liquidity of U.S. capital markets and the propensity of the residents of other countries to save at high rates for a variety of reasons, some level of current account deficit is likely sustainable over time. Estimates of this possibly sustainable level usually fall around 2 to 3 percent of GDP. These arguments make sense, but the big question is how to move from a deficit that is better

Spending on housing



Trade balance

than 6 percent of GDP, and growing, to one that is half that size and relatively stable.

In this regard, national income accounting tells us something about the sustainability of the deficits, but it does not dictate how a narrowing of these deficits will occur. The trade deficit could be reduced through some combination of increased exports and decreased imports relative to GDP, although not every combination is equally probable or cost-free. Stronger domestically led economic growth in our major trading partners could work toward increasing the demand for U.S. exports. This would be highly desirable as it would not only cause our trade deficit to fall, but would also indicate that the major industrial countries that are our largest trading partners had achieved strong, self-sustaining growth as well. Robust levels of domestic demand in these countries benefit everyone, but such demand has proven hard to attain, at least in the Euro-zone and Japan. Demographic and structural issues, among others, have frustrated domestic demand growth in both of these areas, and it is not clear how soon these impediments might be overcome.

Slower U.S. growth would decrease the demand for imported goods and services in the United States. Clearly, for instance, if personal savings rates rise, consumption will fall, at least in the short run. This would have important short term negative effects for U.S. GDP and for the rest of the world as well, but it may well be unavoidable, and even desirable, if a better balance between investment and national saving is to be achieved. Similarly, a reduction in the federal budget deficit might well both increase national savings and reduce consumption and growth if it is not offset by decreased private saving. And further depreciation of the dollar relative to the currencies of our trading partners might also

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help to close the trade deficit, given some growth in demand abroad, although the fairly sizable depreciation that has occurred to date has not had much effect except to raise import prices to a small degree. More generally, though, a large, prolonged dollar depreciation can bring risks of inflation.

An arguably remote but potentially very disruptive possibility is a rapid change in the willingness of foreign entities to increase the share of U.S. assets in their portfolios. This might result from an increase in the perceived likelihood of a major rapid depreciation in the U.S. dollar, which would decrease the expected return to foreigners from holding dollar-denominated assets. Portfolio considerations could play a role as well. Although foreigners may have had good reasons to increase their stake in the U.S. economy in light of increased trade liberalization and strong U.S. productivity growth, one should not expect this phenomenon to continue indefinitely. There are undoubtedly limits to the share of their portfolios that foreign investors want to hold in U.S. assets. At some point, moreover, foreign central banks may also prove less willing to support the value of the dollar relative to their currencies. Major shifts seem quite unlikely, but they are not impossible, and the consequences would be dramatic.

Unless the national savings rate increases, a sharp reduction in the U.S. current account deficit would imply an equal reduction in U.S. investment spending. The market mechanism that yields this result would likely be an increase in interest rates. If foreign entities become less willing to finance U.S. investment, then the required rate of return would be bid up to the point where U.S. investment drops enough to equal the sum of U.S. national saving plus the newly reduced flow of capital from abroad. Such an increase in interest rates would depress current output and would likely have sizable negative effects on equity markets. The resulting financial volatility would have a major impact on short term economic activity. More importantly, it would also decrease prospects for future growth by decreasing investment in new equipment and technologies.

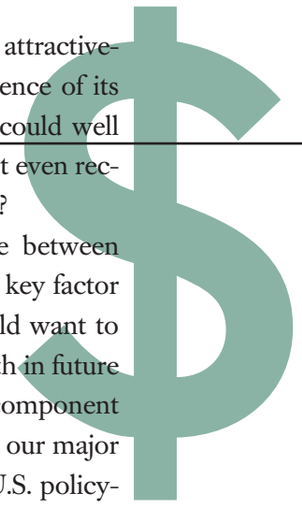
Policy Choices

It seems clear from the above discussion that a range of possibilities exist for the inevitable process of restraining the growth of the rapidly widening U.S. external deficit. A narrowing will occur at some point, but it is difficult to predict how or when. This is not a comfortable situation for policymakers. External deficits of the size of the current U.S. position relative to GDP have rarely been seen in major developed countries. Where they have been seen is in the developing world, and there the results have

usually involved major financial and economic crises. The unique size and attractiveness of the United States as an investment location, the strength and resilience of its economy, and the fact that its external debt is largely in its own currency could well help to ward off the major negative consequences of the current situation. But even recognizing this, what should policy do to better ensure a reasonable outcome?

The current account deficit is a direct reflection of the imbalance between national saving and investment spending. And the federal budget deficit is a key factor underlying the deficient rate of national saving. It is clear what policy should want to avoid: a drop in U.S. investment spending and decreased prospects for growth in future living standards. It is also clear that increased national saving must be one component of correcting the imbalances. As noted above, increased domestic growth in our major trading partners could help, but achieving this is not within the control of U.S. policymakers. And gradual changes in the value of the dollar would be beneficial as well, although foreign exchange markets can be volatile and, potentially, destabilizing. Thus, depending on a smooth dollar decline is chancy at best.

Private saving rates in the United States are currently quite low relative to income, especially given the aging of the baby boomers. Policy changes that provide incentives to increase private saving have proven over time to be ineffective, however. This leaves us with public saving. It is true that attempts to increase national saving by increasing its public component – that is, by decreasing the deficit – may be partly reversed by private dissaving, but deficit reduction remains by far the best option for increasing national saving. Therein lies a stark conclusion: the best available way to address the risks to future economic well-being that are posed by the current account and fiscal deficits is to implement policies that substantially reduce the fiscal deficit. It should be obvious there is no free lunch here. Reducing the fiscal deficit through tighter fiscal policy results, all other things being equal, in slower U.S. growth. However, more modest growth in the short run and increased national savings could well ensure more robust growth in the long run.



". . . there is no free lunch here. Reducing the fiscal deficit through tighter fiscal policy results, all other things being equal, in slower U.S. growth. However, more modest growth in the short run and increased national savings could well ensure more robust growth in the long run."

Endnotes

1. The offset is exact only if there are no effects of the tax cut on real economic variables such as employment or output.
2. The current account balance includes the balance of trade in goods and services, net income flows, and unilateral transfers, such as U.S. government grants, U.S. government pension payments, and private remittances. In 2004, a net deficit on goods and services of $617 billion, net income inflows of $24 billion, and net unilateral outflows of $73 billion resulted in a current account deficit of $666 billion.
3. The Social Security trust fund is expected to continue running a surplus for approximately ten years beyond that date as a result of the interest income it receives from the Treasury securities held by its trust fund.

Data sources for figures:

Figure 1: Office of Management and Budget
Figure 2: Bureau of Economic Analysis
Figure 3: Bureau of Economic Analysis
Figure 4: Board of Governors of the Federal Reserve System
Figure 5: U.S. Department of the Treasury
Figure 6: Bureau of Economic Analysis