America’s Assets and Liabilities in the Global Economy
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Overview

• The importance of globalization
• Financial globalization and the indebtedness of the United States
• Is the United States different?
• Concluding observations
The world has changed...

In 2013, for the first time in recorded history, more economic activity took place in the so called Emerging Market economies than in the Advanced Economies.
Based on current trends, China’s economy will overtake that of the United States (in size) some time in the next five years.
Financial globalization began with the dismantling of the Bretton Woods system of fixed exchange rates in the early 1970s, after which the U.S. began to borrow heavily from the rest of the world.
U.S. borrowing from the rest of the world

- Current account
- Consumption plus residential investment
Party time!

![Graph showing the percent of U.S. GDP for current account and consumption plus residential investment from 1990 to 2010. The graph indicates fluctuations in these economic indicators over time.]
The world has also changed for central bankers

The world economy has been in a global “liquidity trap” since the financial crisis of 2007-2009

Note: With the introduction of quantitative and qualitative monetary easing by the Bank of Japan on April 4, 2013, the main operating target for money market operations changed from the uncollateralized overnight call rate to the monetary base. The average rate is plotted for Japan starting April 4, 2013.
The Great Depression and the Great Recession

U.S. industrial production
2007 = 100

U.S. industrial production
1929 = 100
The Great Depression and the Great Recession

U.S. real GDP
2007 = 100

U.S. real GDP
1929 = 100
The Great Depression and the Great Recession

U.S. unemployment rate 1929-1935
U.S. unemployment rate 2007-2013
The Great Depression and the Great Recession

World industrial output
2007 = 100
1929 = 100
From being a net creditor to net debtor

1985: The tipping point

Percent of U.S. GDP
Is the U.S. “different”?

• Role of the U.S. dollar as a global currency
  – As vehicle for holding foreign exchange reserves
  – As a unit of account for pricing (e.g. oil, airplanes)

• Seigniorage revenue
  – About half of US currency held outside the United States

• Ability to issue debt in our own currency
  – US almost uniquely privileged in this regard

• “Safe-haven” status
Foreign holdings of U.S. Treasury debt

As a percent of total U.S. Treasury debt outstanding
Foreign official institutions’ holdings of U.S. Treasury securities

As a percent of total foreign holdings of U.S. Treasuries
U.S. dollar the preferred vehicle for holding foreign exchange reserves

Launch of the euro as an accounting currency on January 1, 1999 made very little difference to the share of global foreign exchange reserves denominated in dollars.

Likewise, the introduction of euro notes and coins on January 1, 2002 made very little difference to the importance of the dollar in foreign exchange holdings.

Percent of global foreign exchange reserves
A tidy source of profit to the U.S. taxpayer
Currency Composition of U.S. International Assets

[Diagram showing the share of different currencies in U.S. international assets from 1994 to 2012, with labels for Other, Singapore, Mexico, Brazil, Australia, Japan, Switzerland, U.K., Canada, Euro area, and U.S.]
Currency Composition of U.S. International Liabilities
Total FDI in the U.S. and abroad
Composition of foreign direct investment in the U.S.
Composition of U.S. direct investment abroad

- Africa
- Middle East
- Canada
- Asia and Pacific
- Latin America
- Europe
The external value of the dollar

- Appreciation of the dollar due to safe haven capital flows during the financial crisis
Final thoughts

• Globalization is driving a fundamental rebalancing of global economic activity
• Financial globalization has seen the U.S. go from being a net creditor to the rest of the world to being a net debtor
• Nevertheless, the U.S. is different in important respects
• A key challenge going forward will be to ensure that we do not squander that position