

BEA REPORT (September 15, 2011)

<http://www.bea.gov/newsreleases/international/transactions/2011/pdf/trans211.pdf>

We did : Balance of Payments = Trade Balance + Net Foreign Investment

Or, using their terms:

Balance of Payments = Current Account + Capital Account

A - Current Account

Expanded definition:

Current Account = Trade Balance + Net Unilateral Transfers + Net Investment Income

(1) **Trade Balance** = (exports - imports), for 2010 (second column, all in millions):

Exports of goods and services (line 2) = 1,837,577

Imports of goods and services (line 19) = 2,337,604

Trade Balance (line 74 = line 2 minus line 19) = **-500,027 = trade deficit**

(2) **Net Unilateral Transfers**

NUT = gifts to US from foreigners - gifts from US to foreigners

By "gifts" we mean government grants & transfers + private remittances

NUT (line 35) = **-136,095** = (on net, US gives abroad more than receives)

(3) **Net Investment Income**

NII = income received by Americans from US assets abroad (interest, dividends, profits, etc.) *minus* income paid to foreigners for foreign-owned assets in US

Income from US assets abroad (+ wages of US workers abroad) (line 12) = 663,240

Income paid on foreign-owned assets in US (+ wages of foreign workers in US) (line 29) = 498,016

So on NII (line 75 = 12 minus 29) = **165,244** (US receives net income in)

So, **Current Account** = TB + NUT + NII, (line 74 + line 35 + line 75 = line 77) = **-470,898**

So to *ensure* a zero balance of payments, then the current accounts must be completely counterbalanced by the Net Foreign Investment (NFI) (or "Capital Account" must be +470,898.) Is this true?

(B) Capital Account

NFI = Foreign investment in US - US investment abroad

Foreign investment in US (line 63) = (895, 982)

US investment abroad (line 50) = 1,010, 888

We can include the net purchase of financial derivatives (line 70 = 13,735) as part of the capital account, so on the whole

So NFI (63 minus 50 + 70) = **-101, 171** (they don't calculate it explicitly, but we can)

So we have a capital account deficit! And it is reinforcing the current account deficit of -470,898

B of P = Current Account + Capital Account =
of -470,898 + (-101, 171)
= **-572, 070** a balance of payments deficit (excess supply of \$)

Normally, that means the US \$ would collapse.

So if currency is stable, that means that means dollars are being drained out of the system by governments to keep it stable. We can check if that is the case by looking at "official reserves account".

(C) Official Reserves Account (ORA)

Official reserves = government/central bank holdings of reserves (i.e. foreign currencies, SDRs, gold, etc.). ORA measures how these have changed.

US Federal Reserve's purchases of dollars with foreign currencies (line 41) + other US government acquisition of \$-dominated assets (line 46) = -1,834 (Fed is selling dollars!) + 7, 540 = 5, 705 (i.e. on net, a positive demand for dollars by US government) That's nowhere near enough to make up the B o P deficit.

What about foreign governments & central banks buying up dollars?

Foreign government purchases of US dollars & dollar-denominated assets (line 56) = \$349,754 (dollars soaked out of system by foreign central banks buying dollars - read: Chinese government)

ORA = 355, 460 (i.e. dollars bought up by US & Foreign governments).

So changes in official reserves only partially balances out the balance of payments deficit (-572,070).

There is a gigantic discrepancy between the numbers by \$216,610

TOTAL:

Since it must be that Current Account + Capital Account + ORA = 0, then our figures show:

$$(-378,432) + (-1,152, 278) + (939, 116) = + 216, 610.$$

We call this remainder a "statistical discrepancy". (the BEA lists the discrepancy (line 71) as 216, 761 (essentially the same, with only a slight difference because of rounding off)

Think of the statistical discrepancy as either sheer error or "dollars going abroad mysteriously", e.g. unrecorded remittances, black market, drug economy, etc.