# Comments on “International Currency and the US Current Account Deficits” by Fukuda and Kon

Andrew K. Rose

UC Berkeley, CEPR and NBER

## An Important Set of Related Issues

- Is US Current Account Deficit sustainable?
- How important is Dollar's role as Reserve Currency?
- Are Fundamental Causes mostly American/foreign? permanent/transitory?

So the Motivation is solid!

## Modeling Strategy Issue #1

- If the fundamental source was Asian crisis, why isn't crisis (cause/consequence) more directly in model?
- Assuming a shock to NFA preferences for a specific currency close to assuming solution
- Can't address the question: what's special about US?
  - (Ex: Why shift to US and $, not Europe and €?)
- Expressed alternately: why does $\lambda$ rise (from already high number)?

## Modeling Strategy Issue #2

- To acquire assets from A, usually don't assume anything about trade with A (bilateral vs. multilateral).
    - Reference: Krugman's "Oil and the Dollar" where trade and asset preference patterns can be VERY different.

**Modeling Strategy Issue #3**

**Do We Believe NFA delivers Utility? (In this way?)**

- Intrinsic Plausibility?
  - NFA => utility without satiation like goods/services?
  - Further: is *size* of effect plausible? $\rho$ and $\lambda$ are big! (Recognized in paper!)
- Why bilateral NFA, not multilateral?
  - Why not home's assets too? (SOE + A + B)
  - Plausible to assume such asymmetric tastes for different countries' NFAs? $\lambda=5/6$, $\rho=1$.

- Is something different about Asian tastes for NFA?
  - If so (because of crisis?), shouldn't this be in model?
  - If not, why is Asian behavior different?
  - Either way: how can all countries satisfy desire for positive NFA?
- Returns on NFA modeled oddly:
  - Return is a) constant, b) identical across A, B when exchange rate risk exists

- Rodrik issue: why not more reduction in short-term liabilities? More reserves/fewer liabilities => more NFA
- Feenstra: cash in advance ≈ money in utility function
  - But it's money, not NFA
  - Exist various technical assumptions: satisfied?

Needs more study/justification!

## Suggestion #1: Tighter Links to Existing Literature

- Blanchard, Giavazzi, and Sa: role of imperfect substitutability of currencies; shock is world-wide shift towards American assets (similar!)
- Caballero, Farhi, and Gourinchas: heterogeneous growth across regions AND abilities to generate financial assets from investments

## Suggestion #2: Compare to Alternative Explanations

- Would like to compare many (not just B-S) implications with a) data; b) competing theories
  - Ex: role of US budget deficits/Chinese factors/etc
- Easier for empirics than theory

## Suggestion #3: Motivate Balassa-Samuelson Focus Better

- What's special about productivity growth here?
- Seems like excess focus on one smallish aspect of problem
  - Many other testable implications
  - Data only exists through 2000; crisis in '97-'98
  - Why estimate at all? Use Rogoff's estimates with later (WDI) data
- Could look at NFAs directly!

## Smaller Stuff

- Use M2 (possibly also imports) to measure reserves
- Add time- and country-effects to empirics
- Sensitivity analysis with respect to '99/'98?
- Shouldn't refer to Deutschemark after 1998!