# The problems with the US savings gap

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Although in the short-term investment can determine savings, in the long term it is what limits investment and, therefore, economic development. Current account deficits may be viewed as external savings gaps that reduce the country's capacity to accumulate capital, without limiting it completely, since debt is a possibility. We can therefore call these deficits "savings gaps," while countries with surpluses would have "excess savings."

The United States, the United Kingdom, and Latin America usually have savings gaps, while China, Japan, and Germany have excess savings. This means that the latter are financing the consumption of the former. They are not financing investments because this is a variable determined by companies and individual entrepreneurs, who take their decisions according to their profit prospects, and by the state, while consumption (that cannot be planned), is the residuum.

Economists in rich countries generally assume that rich countries must have surpluses, since Marx, John A. Hobson and Keynes made it clear that there is an excess of capital in them seeking investment opportunities in their countries, while underdeveloped countries must be in deficit because they need foreign capital to develop.

Martin Wolf, who recently drafted an excellent article in the *Financial Times* (May 13th, 2025) on the problem of excess savings or current account surpluses, also adopts this belief, and considers it absurd that the United States is a great absorber of foreign savings. Something that has been happening since the 1960s and has worsened since the global financial crisis of 2008.

In this article, Wolf notes that current account deficits and the corresponding inflow of dollars into the country need to be invested. In the United States, Spain and Greece before the crisis, this was due to credit-fuelled property booms. "When those property bubbles burst and financial systems crashed, the consequence was also huge fiscal deficits almost everywhere."

Therefore, Wolf concludes, "we now seem unable to turn surplus savings in some countries into productive investment elsewhere. One of the reasons for this is that the countries able to borrow sustainably from abroad have creditworthy currencies. … In such a world, it is hardly surprising that the dominant borrower and spender is the US government. But is that a good result of the liberalisation of the global capital accounts? Hardly! It is a huge failure

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that all these surplus savings are frittered away in this way, rather than invested in productive activities, above all in poorer countries."

Yes, but I will argue that not only rich but also developing and emerging countries should not get involved in recurrent current-account deficits. In the later there is a permanent "capital gap", but when these countries show recurrent external deficits, their national currency will turn overvalued and remain so until the country rebalances it. Conventional economics understands that this country will be protected from a currency crisis until the percentual increase of its foreign debt is less than or equal to the increase of GDP, but it does not consider that the country's manufacturing industry will lose international competitiveness, so that the additional foreign savings will replace domestic savings and the investment rate will not bulge. This claim is true even when the required capital inflow will have the form of direct investment, because investment will fall in other industries due the overvaluation of the exchange rate and the fall of investment opportunities.

While developing and emergent countries have a limit to their foreign indebtedness, the US, with its famous "exorbitant privilege", doesn't, what allows it engaging in very high current-account deficits vis-à-vis GDP. Such privilege, however, doesn't exclude the country from having its manufacturing industry turned less competitive – something that have been ignored by most analysts. Not by the economists that advise President Donald Trump, who realized the problem derived from the persistent current-account deficits of their country.

The question is how to solve the problem, or being more realistic, how to manage it, because there is no simple solution. To devaluate the dollar is not possible because it is a floating currency where capital controls are excluded. Anyway, this would damage the prestige of the dollar, which is presently threatened with the rise of China and the mistakes of the President Donald Trump.

Tariffs are the alternative solution. The introduction or increase of an import tariff is equivalent to a depreciation of the dollar in relation to that good. Besides protecting (usually) the manufacturing industry, tariffs may have another role: to depreciate the national currency. But this cannot be made in the Bush administration way. The US cannot depreciate the dollar in one day, the "liberation day", nor in a month or a year.

This must be done gradually and not be confused with commercial war. As a depreciation instrument, the tariffs should be equal for all countries. To maintain the rule of one tariff to each kind of good, it should be created an additional tariff which would be equal – for instance, of 10% of the price of the good. This would be equivalent to a 10% depreciation of the dollar – a policy that would reduce the US's savings gap.

Limited to approximately this level, the even tariff would not cause retaliations. Other countries would understand that it is a way of depreciating the dollar which, for several reasons, is overvalued since the late 1960s. Among these reasons is that the American population, used to this value of the dollar associated to the current-account deficits, is for long consuming more than it should. It will be politically impossible to solve this problem in one day.