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## MAGAZINE

## Global Savings Glut, The

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That the United States, with a current account deficit equivalent to more than 6 percent of its gross domestic product, is living beyond its means is not in dispute. And, at least until recently, there was general agreement among economists that the shortfall was mainly due to American profligacy, in the form of record federal budget deficits and a household savings rate that has now officially hit zero.

In March, however, the received wisdom was challenged by a formidable figure with a penchant for airing provocative views: Ben Bernanke, who was then a governor of the Federal Reserve and early next year will most likely replace Alan Greenspan as the central bank's chairman. In a speech to the Virginia Association of Economics, Bernanke suggested that the primary cause of the current account deficit was not America's excessive spending but rather the rest of the world's excessive thrift -- what he coined, memorably, a "global saving glut."

Bernanke pointed out that Japan, Germany and other advanced industrialized nations have been squirreling away money to help support aging populations and that because of a paucity of attractive domestic investments, a sizable share of those savings has been put to work in the United States. More important, a number of developing countries have greatly increased their savings, and a lot of this money has also come to the United States -- through, among other things, vast purchases of U.S. Treasury securities.

According to Bernanke, all this foreign investment helped inflate and sustain the stock-market bubble of the late 1990's. It has also helped keep long-term interest rates low, which in turn has produced a significant rise in property values and another surge in household wealth. In short, foreigners needed a place to park their savings, the United States became the depository of choice and this enormous inflow of investment put lots of cash in the pockets of Americans -- cash they chose to spend rather than save.

Although Bernanke is universally admired for his intellectual acuity, his hypothesis has met with some skepticism. Critics note that the global savings rate as a proportion of global output has been gradually declining for more than three decades. More cynical observers suggest that Bernanke's argument is simply a clever attempt by a Bush administration appointee to deflect blame for the rapid deterioration in America's finances.

Whatever the reasons for global economic imbalances, most economists agree that a readjustment is inevitable. Should the day of reckoning arrive, the task of mitigating the pain is going to fall mainly on Bernanke's shoulders. Michael Steinberger