

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

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This is an interesting paper on an important set of related issues that has been much discussed in the literature of late. The authors are interested in whether the American current account deficit is fundamentally sustainable. Linked to this is the question of how special the United States is since it happens to be the country that issues the world’s favored reserve currency (at least the current favorite). Alternatively expressed, are the fundamental causes of “global imbalances” mostly American or foreign? mostly permanent or transitory? I congratulate the authors on a stimulating piece of work on such a relevant and topic set of issues.

While praise is appropriate, the role of the discussant is intrinsically critical. I want to begin by pointing out three strategic choices that the authors made that I would have made differently.

The first place where I diverge from the authors is in the approach they take to modeling the exogenous parameter shock that starts the ball rolling. Why exactly does the taste for foreign liquidity suddenly rise? Why is the taste limited to Asian countries? And why does it take place when it does? To me, if the fundamental source of the shock was the Asian crisis (as seems

perfectly reasonable), then this should be modeled more directly. As it is, assuming that there is a shock to preferences for net foreign assets of a specific currency seems perilously close to assuming the solution to the problem of interest. It is also restrictive, since it doesn't allow one to really address the question of what's special about the United States other than by assumption.

A separate issue is the implicit linkage in the paper between bilateral and multilateral balances – or, more precisely, between trade and financial imbalances. In the paper, a country that develops a taste for the assets of (say) the United States runs a current account surplus vis-à-vis the United States. That seems natural ... but only at first. Usually we model bilateral trade flows independently of the aggregate trade balance; a country might have a deficit vis-à-vis a particular country and still run an aggregate surplus. More importantly, we also usually model trade in goods (and services) independently of trade in assets. I can obtain euros by running a surplus vis-à-vis Japan and then trading the yen for euros. So the setup here is restrictive and at odds with the literature. That's not necessarily bad of course; it's simply worth pointing out (and defending).

The final and most important issue, at least to me, is whether we really believe that agents get utility from holding net foreign assets. I am not wholly convinced that this is intrinsically plausible. It seems hard for me to believe that NFA delivers welfare in a way similar to the satisfaction I get from consuming goods and services. Do I really benefit from NFA *per se*, that is assets that *aren't* converted into goods and services? Even if I do, isn't there satiation in NFA? Do the net foreign assets of different countries really yield substantially different utility? Do Asians have different tastes for NFA than say Europeans, and does this really vary a lot over time? Could the size of this effect be comparable to that from goods? After all,  $\rho$  and  $\lambda$  are big in the paper (as recognized by the authors). Finally, if NFA holdings are inherently valuable,

why do so few countries seek to increase them by reducing liabilities (as opposed to increasing reserves)? All this strikes me as a set of issues worthy of discussion in future work.