

[< Working Papers](#)

The US Current Account Deficit and Economic Development: Collateral for a Total Return Swap

Michael P. Dooley, David Folkerts-Landau & Peter M.
Garber

SHARE       

WORKING PAPER 10727

DOI 10.3386/w10727

ISSUE DATE September 2004

We argue that a chronic US current account deficit is an integral and sustainable feature of a successful international monetary system. The US deficit supplies international collateral to the periphery. International collateral in turn supports two-way trade in financial assets that liberates capital formation in poor countries from inefficient domestic financial markets. The implicit international contract is analogous to a total return swap in domestic financial markets. Using market-determined collateral arrangements from these transactions we compute the collateral requirements consistent with recent foreign direct investment in China. The data are remarkably consistent with such calculations. The analysis helps explain why net capital flows from poor to rich countries and recent evidence that net outflows of capital are associated with relatively high growth rates in emerging markets. It also clarifies the role of the reserve currency in the system.

Download a PDF

[Information on access](#)

Acknowledgements and Disclosures



Citation and Citation Data



Related

TOPICS

[International Economics](#)
[International Factor Mobility](#)
[International Finance](#)

PROGRAMS

[International Finance and Macroeconomics](#)

More from the NBER

In addition to [working papers](#), the NBER disseminates affiliates' latest findings through a range of free periodicals — the [NBER Reporter](#), the [NBER Digest](#), the [Bulletin on Health](#), and the [Bulletin on Entrepreneurship](#) — as well as online [conference reports](#), [video lectures](#), and [interviews](#).



Martin Feldstein Lecture, Summer Institute 2025
The Fiscal Future

N. Gregory Mankiw, Harvard University and NBER
July 10, 2025

2025, 17th Annual Feldstein Lecture, N. Gregory Mankiw, "The Fiscal Future"

FELDSTEIN LECTURE

PRESENTER: [N. GREGORY MANKIW](#)

N. Gregory Mankiw, Robert M. Beren Professor of Economics at Harvard University, presented the 2025 Martin Feldstein...



Methods Lecture, Summer Institute 2025
**Uncovering Causal Mechanisms:
Mediation Analysis and
Surrogate Indices**

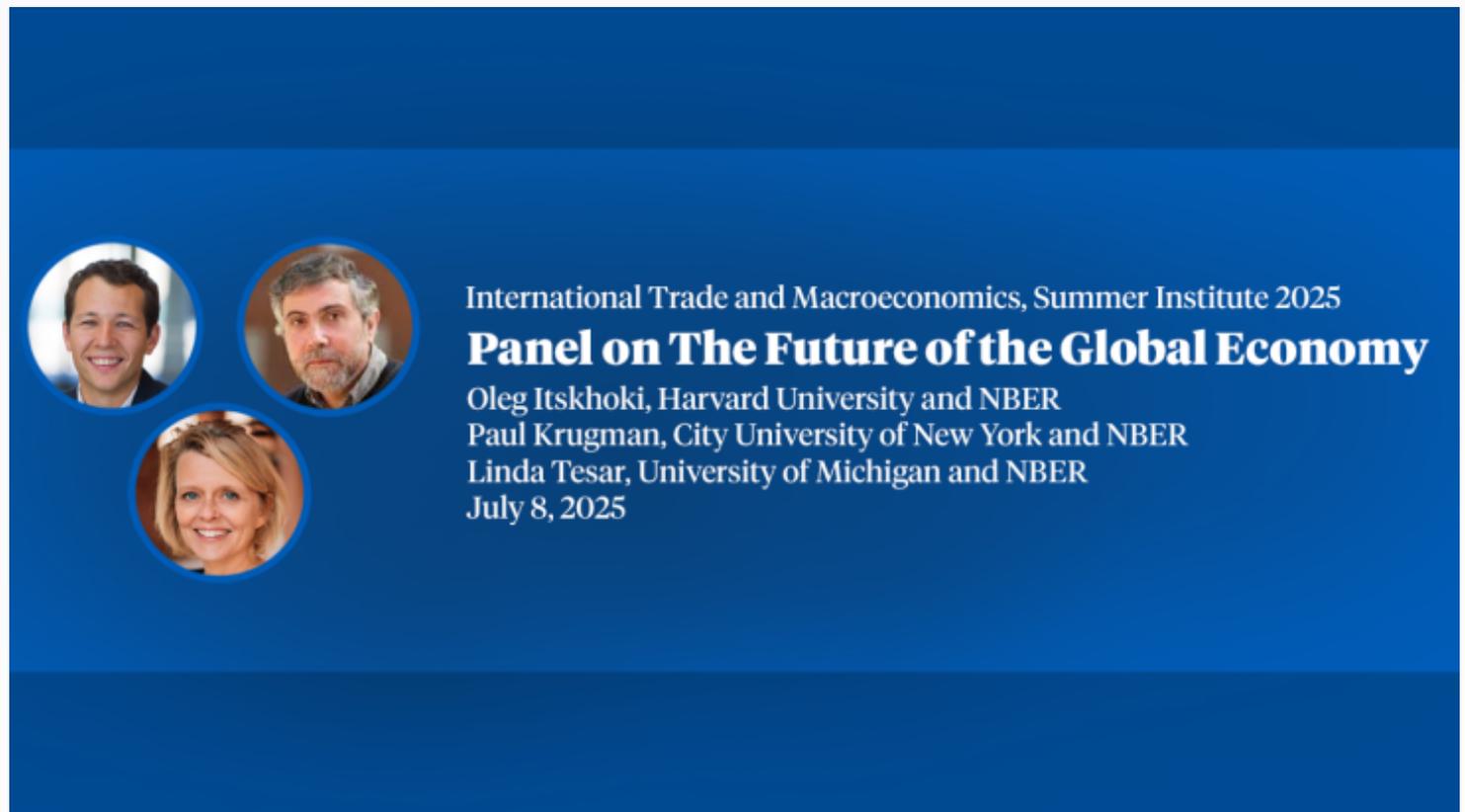
Raj Chetty, Harvard University and NBER
Kosuke Imai, Harvard University
July 24, 2025



2025, Methods Lecture, Raj Chetty and Kosuke Imai, "Uncovering Causal Mechanisms: Mediation Analysis and Surrogate Indices"

PRESENTERS: [RAJ CHETTY](#) & [KOSUKE IMAI](#)

SlidesBackground materials on mediationImai, Kosuke, Dustin Tingley, and Teppei Yamamoto. (2013). "Experimental Designs..."



International Trade and Macroeconomics, Summer Institute 2025
Panel on The Future of the Global Economy
Oleg Itskhoki, Harvard University and NBER
Paul Krugman, City University of New York and NBER
Linda Tesar, University of Michigan and NBER
July 8, 2025

The image is a promotional graphic for a panel discussion. It features a blue background with three circular headshots of the panelists: Oleg Itskhoki, Paul Krugman, and Linda Tesar. The text to the right of the photos provides the event details, including the title 'Panel on The Future of the Global Economy', the speakers' names and affiliations, and the date 'July 8, 2025'.

2025, International Trade and Macroeconomics, "Panel on The Future of the Global Economy"

PANEL DISCUSSION

PRESENTERS: [OLEG ITSKHOKI](#), [PAUL R. KRUGMAN](#) & [LINDA TESAR](#)

Supported by the Alfred P. Sloan Foundation grant #G-2023-19633, the Lynde and Harry Bradley Foundation grant #20251294...

National Bureau of Economic Research

[Contact Us](#)

1050 Massachusetts Avenue

Cambridge, MA 02138

[617-868-3900](tel:617-868-3900)

info@nber.org

webaccessibility@nber.org

[HOMEPAGE](#)

[Accessibility Policy](#)

[Diversity Policy](#)

[Privacy Policy](#)

FOLLOW



© 2026 NATIONAL BUREAU OF ECONOMIC RESEARCH. ALL RIGHTS RESERVED.