NOTE TO EDITORS

The latest issue of the New York Fed's *Current Issues in Economics and Finance*--Viewing the Current Account Deficit as a Capital Inflow--is enclosed for your review.

Authors Matthew Higgins and Thomas Klitgaard, senior economists in the Bank's International Research area, observe that the high current account deficit—the broadest measure of the nation's trade deficit—has raised concerns about the possible loss of jobs in the United States.

Pressure on U.S. firms to lay off workers has been building as a result of increased competition at home from low-cost Asian imports and a decline in the sale of U.S. goods abroad due to rising prices caused by a strong dollar and turmoil in the Asian markets.

Although export and import trends validate these concerns, Higgins and Klitgaard note that the unemployment rate tells a different story. The current account deficit has mounted—to around $225 billion in 1998—yet unemployment is at a quarter-century low. Accordingly, the authors suggest that the concerns over U.S. job losses are misplaced, and their study takes a closer look at the relationship between a high current account deficit and employment.

Higgins and Klitgaard conclude that:

- Viewed narrowly as the net balance in the trade of goods and services, the current account deficit does translate into fewer jobs in export- and import-competing industries.
- However, seen more broadly as the net inflow of foreign investment capital into the United States, the current account deficit results in jobs for the economy as a whole—directly through higher employment in investment-oriented industries and indirectly through the effects of greater investment spending on employment throughout the economy.
- If the nation did not have access to this foreign investment capital, U.S. economic growth would likely be choked off by higher interest rates and reduced investment spending, given the low level of domestic private saving in recent years.

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