

ASK AN ECONOMIST



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PHOTO BY EMILY HOSLER

Why are economists unconcerned about foreign investment in the United States?

The counterpart of the huge U.S. current account deficit is an equally large U.S. capital account surplus. In other words, the rest of the world is sending us goods and services today in exchange for claims on future income, such as stocks and bonds or real investment in assets like automobile factories.

Foreign investment creates jobs and raises wages for local workers, lowers interest rates for local business investment and permits consumers to borrow more cheaply when times are tough. Indeed, 19th century economic development in the U.S. was substantially funded by foreign (largely British) investment.

Anxiety about international investment in the United States dates back at least to World War I, when Americans were concerned about German investment in strategic industries. During the 1980s, Americans worried about Japanese investment in landmarks like Rockefeller Center. More recently, heavy Chinese government purchases of Treasury securities has garnered criticism.

Although critics do not usually carefully define the problems with foreign investment, one might infer three concerns: 1) Foreigners could obtain interests in militarily sensitive industries; 2) Foreigners could suddenly dump their holdings of U.S. assets, harming the U.S. economy; or 3) High foreign investment could disguise problems with low domestic savings.

Economists are not usually very concerned about the first two reasons.

While foreign investment could potentially compromise sensitive military technology, the president has the authority—under the Exon-Florio Amendment to the Omnibus Trade and Competitiveness Act of 1988—to block such acquisitions.

What if the foreign investors dump U.S. assets to pressure the U.S. for political reasons? A sudden decline in demand for U.S. assets would drive up U.S. interest rates and reduce the value of the dollar, but such a decline would also reduce the real value of the foreign investments in the United States. If a major holder of a particular asset tried to sell its holdings overnight, large losses would surely result.

Perhaps the most serious issue with foreign investment is that it effectively disguises a lack of domestic savings. But domestic savings are the result of Americans' individual and governmental decisions and are only modestly influenced by foreign demand for U.S. assets. We have our economic destiny in our own hands.

Submit your question in a letter to the editor. (See Page 2.)
One question will be answered by the appropriate economist in each issue.

COLORFUL ECONOMICS: INTRODUCING THE BURGUNDY BOOK

You've heard of the *Beige Book*, right? This is a collection of anecdotal information and data gathered by Fed economists across the System eight times a year in preparation for FOMC meetings. Now, the St. Louis Fed is producing a sort of local version of the *Beige Book*. Called the *Burgundy Book*, this quarterly report will take a detailed look at economic data for each of the four zones in our District: St. Louis, Little Rock, Louisville and Memphis. The first set of the *Burgundy Book* debuted March 19.

The first section of each book contains information similar to the *Beige Book*—trends in agriculture, consumer spending, real estate, manufacturing and banking, compiled from anecdotal reports from our many business contacts and other sources. The second section includes the most-recent government-provided data for the particular zone, such as unemployment figures, housing activity and personal-income growth.

Anecdotal information will offer a perspective that is not available anywhere else, and the data section will bring together information from various sources in one convenient place.

The *Burgundy Book* will be available online only. To read it, go to <http://research.stlouisfed.org/regecon/district.html>.

FED FLASH POLL RESULTS

Here are the results of the poll that went with the January issue. The question stemmed from the article "Stable Prices, Stable Economy."

WHAT SHOULD BE THE NO. 1 GOAL OF MONETARY POLICYMAKERS?



THIS ISSUE'S POLL QUESTION:

How much credit card debt are you carrying right now?

- Less than \$500.
 - 501 to 1,000.
 - 1,001 to 5,000.
 - 5,001 to 10,000.
 - More than 10,000.
- To vote, go to www.stlouisfed.org.
Anyone can vote, but please do so only once. (This is not a scientific poll.)

HEAR! HEAR!

Two new interviews with St. Louis Fed economists have been posted to the Bank's web site, www.stlouisfed.org:

- Bill Poole, outgoing president and CEO, talks about the current credit upheaval and other financial crises over his tenure on the FOMC, along with the role that the central bank should play at such times. Other topics: consumer protection, government-sponsored enterprises (such as Fannie Mae and Freddie Mac) and fair value accounting. (This is a video interview.)
- Michael Pakko talks about the economic impact of preventing smokers from lighting up in public places. Pakko's article on smoking bans in the January issue of *The Regional Economist* created somewhat of a firestorm, drawing coverage by *The Associated Press*, *Business Week*, the *St. Louis Post-Dispatch*, *Kansas City Star* and a variety of radio and TV stations. (This is audio only.)