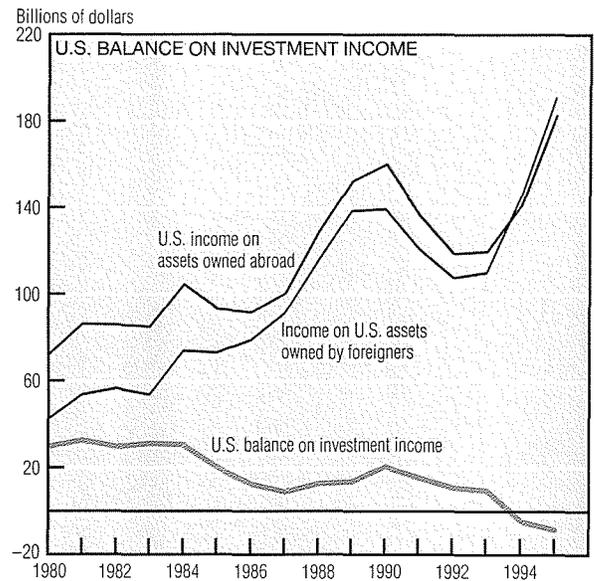
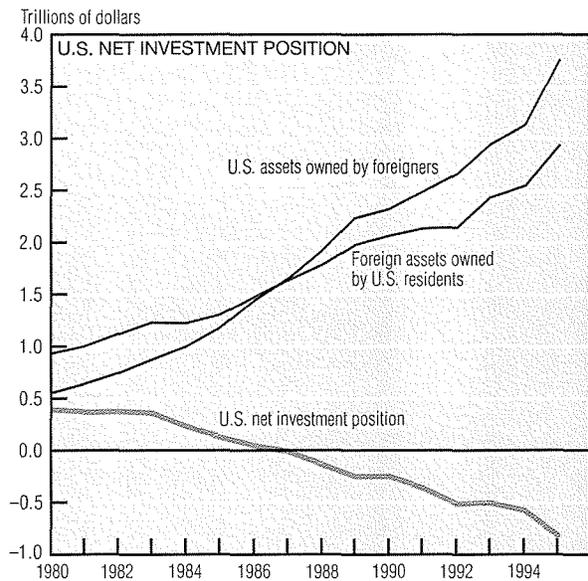
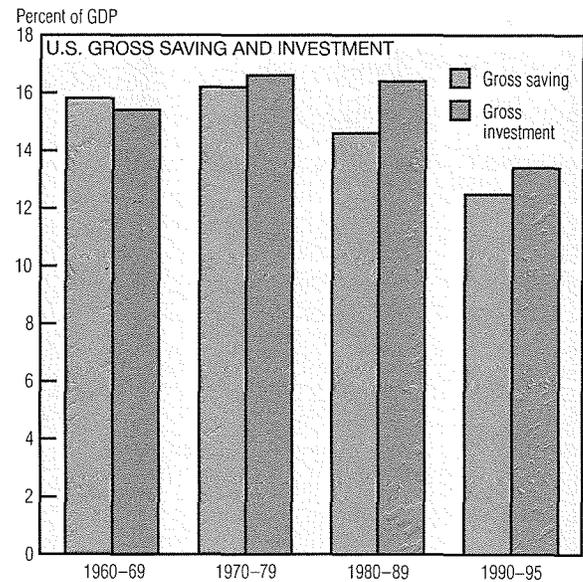
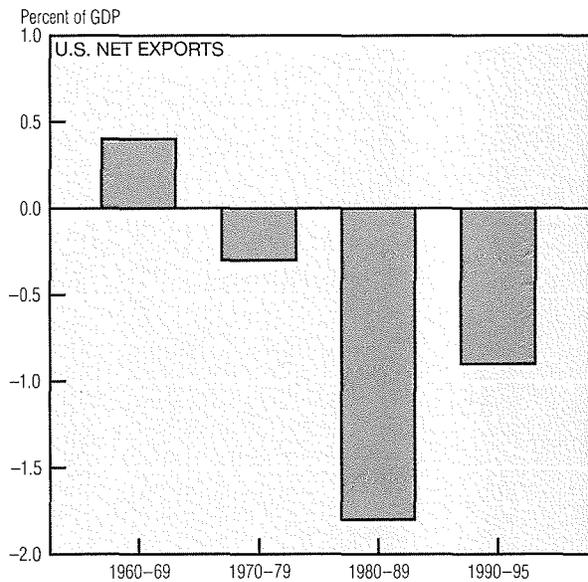


# Trade Deficits and National Saving



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

The U.S. trade balance has been in deficit, on average, for the last 25 years. This is reflected in the behavior of U.S. gross saving and investment. During the 1960s, gross saving surpassed gross private investment, and the excess saving was invested abroad.

National saving began to decline in the 1970s. The gross saving rate dropped 3.7 percentage points between the 1970s and the first half of the 1990s, but gross private domestic investment fell less. The

shortfall in saving was covered by foreign capital inflows—a necessary counterpart of our current account deficits. The long-term decline in U.S. national saving has thus been associated with a secular swing, from positive to negative, in the nation's net investment position. Since 1987, foreign ownership of assets in the U.S. has exceeded ownership by U.S. residents of assets located abroad.

Although foreigners' willingness to invest in the U.S. helps sustain domestic investment, productivity,

and ultimately living standards, an expanding foreign debt also increases the burden of servicing it. Foreign income on U.S. assets has recently begun to exceed U.S. income on assets owned abroad. Moreover, should foreigners become less willing to invest here, the debt would have to be repaid by running current account surpluses—that is, by exporting more than we import. In that case, maintaining domestic investment will necessitate an increase in national saving.