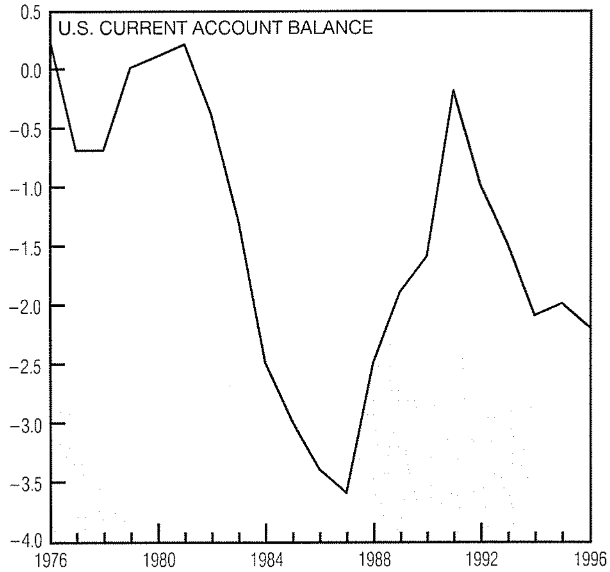
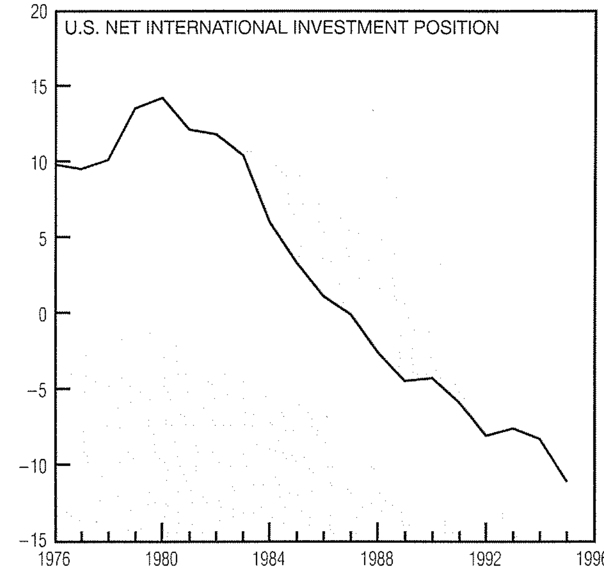
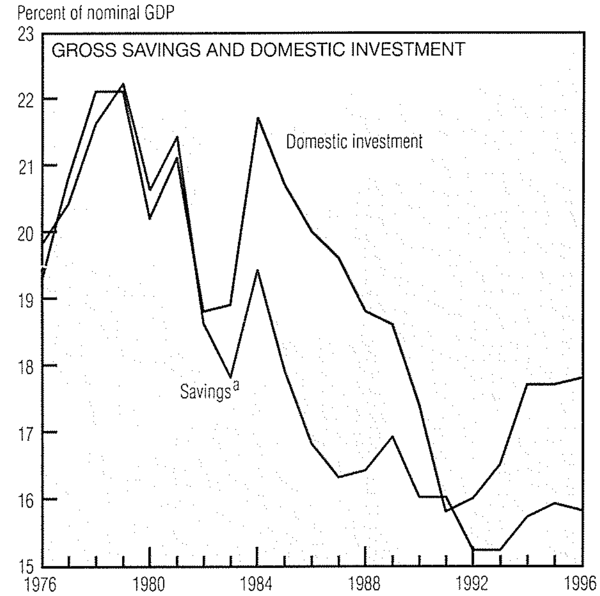
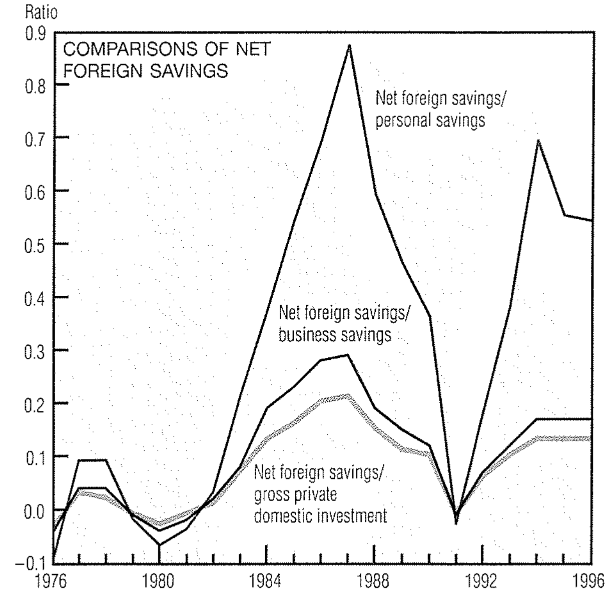
International Capital Flows









a. The statistical discrepancy is recorded as a part of gross savings.
SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

In 1982, the U.S. current account balance shifted into a deficit, which by 1987 had widened to $167 billion, an amount equivalent to 3.6% of GDP. Although the deficit has since narrowed to 2.2% of GDP, its stubborn persistence is more troubling to many observers than its magnitude. For most of the last 50 years, the U.S. has maintained a small current account surplus.

The necessary counterpart to a current account deficit is a net capital inflow of equal magnitude. In running a current account deficit, the U.S. exports financial claims (securities and bank deposits) in exchange for its imports. By the late 1980s, foreign claims on U.S. assets exceeded U.S. claims on foreign assets, implying that we had become a debtor nation. Our international investment position, which indicates our debtor/creditor status, is the sum of all past current account balances plus certain adjustments for changing asset values. In 1995, our international indebtedness amounted to $816 billion, or 11.2% of GDP.

Many observers regard our chronic current account deficit and our debtor status as inconsistent with our position as one of the world's wealthiest nations, but such a judgment may be unfounded. The foreign capital inflow finances the difference between our savings and investment. In recent years, other things being equal, gross private domestic investment would have been approximately 13% lower in the absence of foreign capital inflows.