The U.S. current account deficit requires an influx of foreign capital. In other words, we finance our surfeit of imports by giving foreigners claims on our future output. Persistent deficits have made us a debtor country since 1987. This year, the annual cost of servicing these debts has surpassed the income earned on all U.S. assets held abroad.

The nation’s ability to sustain a current account deficit depends largely on its use of incoming funds. A debtor country that uses foreign capital for financing expanded investment, rather than private consumption or government spending, stands a good chance of servicing its debts without harming its future standard of living.

Comparing saving and investment patterns with the trade deficit reveals three distinct episodes: Between 1982 and 1987, as the U.S. current account expanded dramatically, our gross saving and gross investment fell relative to GDP. During this period, the nation relied on an expanding inflow of foreign saving to help support its private consumption, government spending, and investment. From 1987 to 1991, the current account deficit narrowed. A smaller capital inflow filled the void between gross saving and gross investment. Since 1990, the current-account deficit has widened once again. This time, however, gross investment as a share of GDP is expanding faster than saving, with capital inflow supporting an investment boom.