The U.S. current account, a broad measure of our trade position, showed a $166.4 billion deficit in 1997. Most analysts expect the current account deficit to widen this year and next, for the reasons suggested on the previous page.

Our current account deficit indicates that through consumption, investment, and government spending, the U.S. is absorbing more output than it is producing and is satisfying its excess demand by importing. This situation also implies that our private and government savings are not sufficient to finance our gross private domestic investment. An inflow of foreign capital makes up the difference. If all transactions are properly measured, the capital inflow exactly matches our current account deficit. In other words, we finance our net imports by exporting financial claims on our future output.

As a consequence of our persistent current account deficits, the U.S. has become a debtor nation. This is not necessarily a bad situation. Since 1991, the inflow of foreign capital has financed additional investment, not additional private and government consumption. If this investment enhances productivity, the U.S. should be able to service its debts without any diminution in its standard of living.