The pattern of capital flows and international asset ownership is intimately related to international saving patterns and investment opportunities. In the face of low national saving, domestic investment can be maintained only by reliance on additional foreign borrowing. The U.S. is a case in point. As its national saving declined in the 1980s, this country became a net importer of goods and services. A negative trade balance ultimately resulted in the U.S. becoming a debtor nation.

Since the mid-1980s, foreign claims on assets in this country have exceeded U.S. residents' claims on assets located abroad.

Trade deficits and the associated capital inflow increase the share of domestic capital owned by foreigners, but also help maintain workers' productivity by equipping them with more machines, tools, and skills. This keeps domestic incomes at higher levels than would be possible without the imported capital. Nevertheless, as our debt expands, so does the service charge—dollar payments of income to foreigners.

Foreigners are willing to invest in the U.S., probably because it offers them better investment opportunities than those available in other countries and because they have confidence in the stability of the dollar's international value. As long as foreigners' investments in the U.S. continue to exceed their investment income on assets held here, domestic investment will continue to outstrip U.S. national saving. However, a capital inflow cannot persist indefinitely because the rate of return on investment in the U.S. must eventually fall. When this happens, Americans will have to service the debt by running a trade surplus—that is, by exporting more than they import.