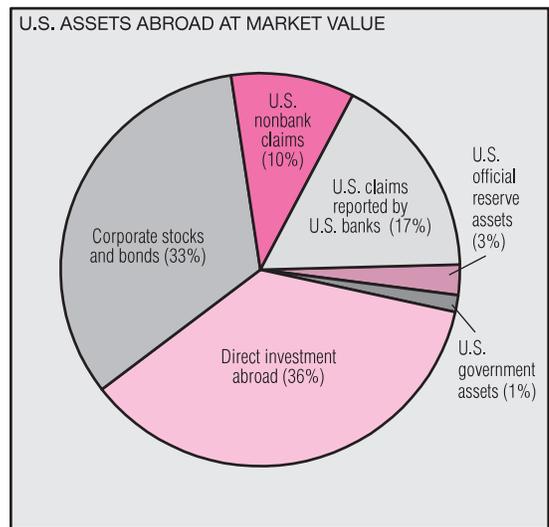
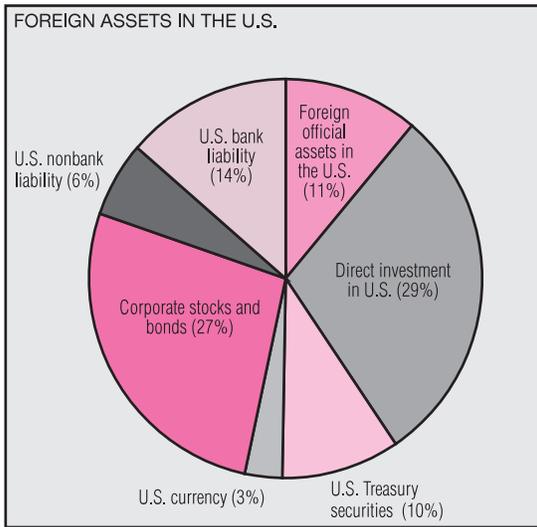
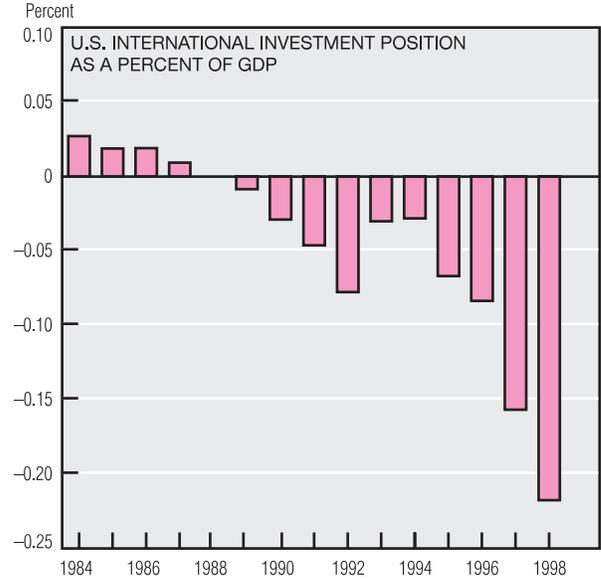
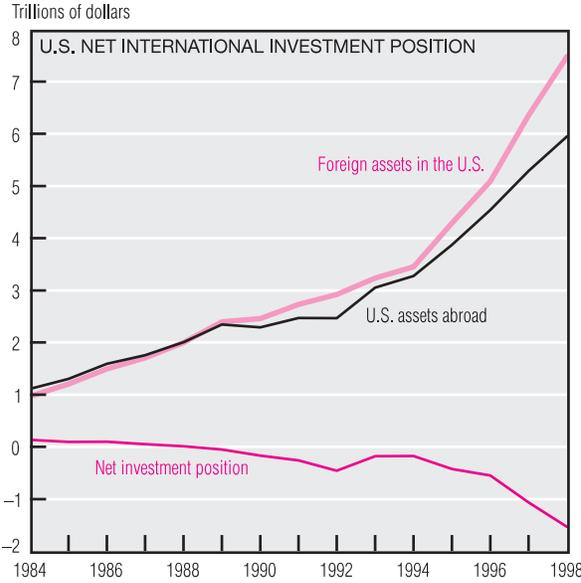


The U.S. as a Debtor Nation



SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and International Monetary Fund, *International Financial Statistics*.

An inflow of foreign capital has accompanied the persistent string of U.S. current-account deficits since 1982. Essentially, we have financed a surfeit of imports by issuing financial assets that represent a foreign-held claim on future U.S. output. As a consequence, we became a net debtor nation in 1988 when foreign-owned assets in the U.S. began to exceed U.S.-owned assets in the rest of the world.

Currently, U.S. international debts amount to \$1.5 trillion.

Because nearly all of this debt is denominated in U.S. dollars, it does not expose the country to exchange-rate risk, the Achilles heel of many indebted developing economies. Economists often evaluate the indebtedness of developed countries relative to their GDP, which acts as a proxy for their ability to meet their debt-service obligations. At 22% of output, the U.S. debt seems high, but other countries, notably Canada and Australia, have sustained much higher debt

ratios for long periods with no apparent adjustment problems.

The foreign portfolio consists mainly (56%) of direct investments in the U.S.—implying a degree of company control—and U.S. corporate stocks and bonds. Another 10% of the portfolio is held in U.S. Treasury securities. Official dollar assets account for 10% of the portfolio, and a small portion (3%) consists of currency. In contrast, almost 70% of the stock of U.S.-owned foreign assets consists of direct investments or corporate stocks and bonds.