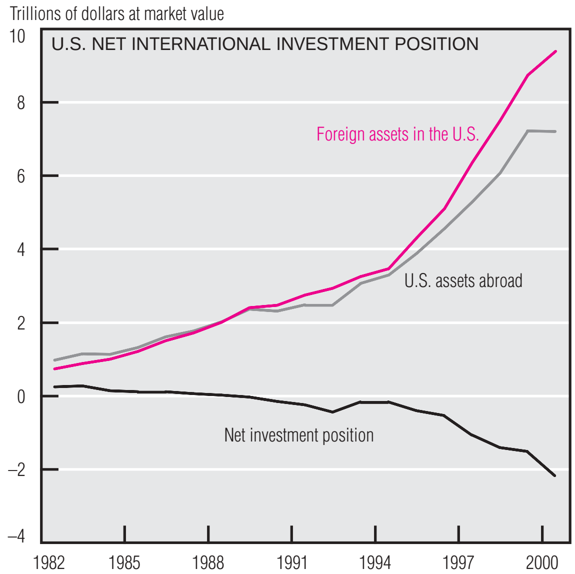
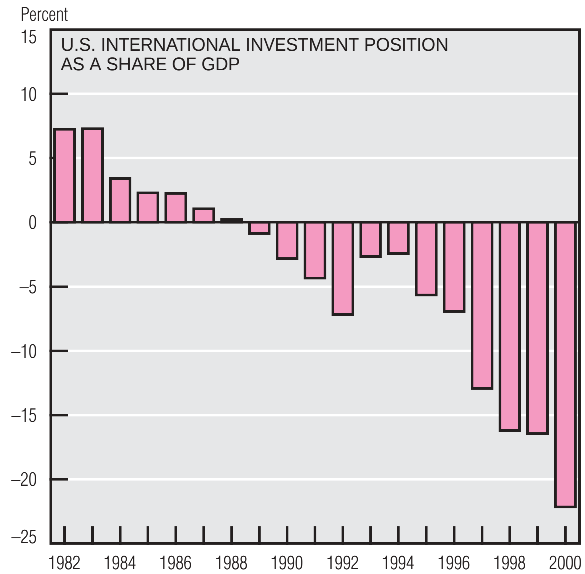
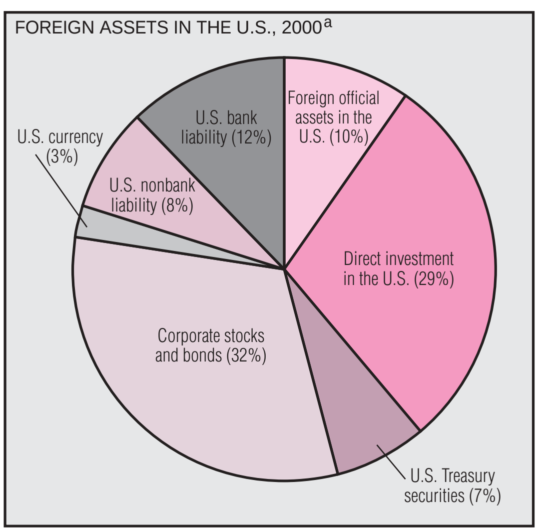
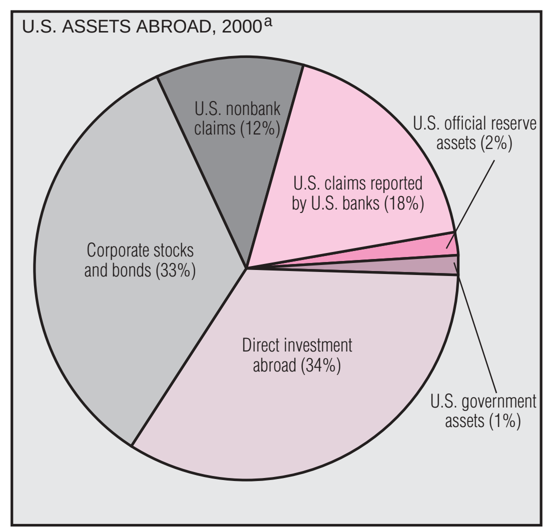
The U.S. International Investment Position









a. Market value. Shares may not add to 100 because of rounding.
SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis.

The U.S. has financed its persistent trade deficits by issuing financial claims against its future output to the rest of the world. As a consequence, foreigners now hold more than $2.1 billion in net claims against the U.S., an amount exceeding 23% of our gross domestic product. Does mortgaging tomorrow's output for today's imports imply a lower standard of living sometime in the future?

The answer depends on how we use the associated inflow of net foreign savings. If it continues to promote productive investment and rapid economic growth, as seems to have been the case since the mid-1990s, servicing and retiring the large stock of foreign claims need not lower the trajectory for our standard of living. If, however, the inflow of foreign savings finances private consumption and government spending, as often seemed the case in the 1980s, financing them eventually would reduce our consumption.

The foreign portfolio consists mainly of direct investments (29%)—implying a degree of management control—and U.S. corporate stocks and bonds (32%). These shares have expanded over the past two years, largely at the expense of U.S. Treasury securities, which now account for 7% of the portfolio. Official assets (dollar reserves) equal 10% of the foreign portfolio and a small portion (3%) consists of currency. Similarly, U.S.-owned foreign assets consist mainly of direct investments (34%) and corporate stocks and bonds (33%).