



# International Economic Trends



## Update on the U.S. International Investment Position Conundrum<sup>1</sup>

In 1996 the U.S. net international investment position (NIIP), based on market valuations, was the difference between \$4,285 billion of U.S. assets abroad and \$5,116 billion of foreign assets here. Remarkably, we earned \$206 billion on our foreign investments, while foreigners earned only \$204 billion on their investments. Thus, we earned a positive net return on our negative \$831 billion NIIP—the conundrum in the title. Despite recent measurement initiatives designed to increase the accuracy of the specific estimates underlying the NIIP, the conundrum persists.

One initiative was the Treasury Department's benchmark survey of U.S. holdings of foreign stocks and bonds, which was released in July. For years, it has collected data on portfolio transactions and conducted surveys on foreign holdings of stocks and bonds here, but it had not surveyed our comparable investments since 1943. For the survey date, March 31, 1994, it uncovered more than \$300 billion in U.S. investments that had not been accounted for previously. This figure was more than half again as large as the previously estimated value of our holdings. Based on the new benchmark, U.S. holdings of foreign stocks and bonds totaled \$1,273 billion in 1996—about the same as the \$1,225 billion of foreign holdings of stocks and bonds here. The addition to the estimated value of U.S. holdings of such portfolio securities, however, doesn't help much to resolve the conundrum, because income on such investments is estimated on the basis of holdings.

A second initiative is the inclusion this year of \$210 billion in foreign-held U.S. currency in 1996, an estimate that actually exceeds the amount of U.S. currency held by U.S. residents. Since currency pays no interest, this

upward revision in foreign assets helps to explain, although not nearly enough, why the return to foreigners on assets in the United States is comparatively low.

Two other major measurement initiatives were introduced earlier in the 1990s:

The first was to calculate the market value of the U.S. gold stock, which was determined to be \$97 billion in 1996, compared with \$11 billion based on the \$42/ounce official gold price. This revaluation added to the measure of U.S. assets abroad. If gold were treated as a commodity and not counted as an international monetary asset, our NIIP would be even more negative, making the disparity between our positive net income and the negative NIIP even greater.

The second initiative dropped historical cost valuation of direct investments in the NIIP accounts. Based on historical costs, U.S. direct investment in 1996 was \$796 billion and foreign direct investment was \$630 billion; yet we earned \$99 billion on our direct investments, and foreigners earned only \$32 billion on theirs. Based on market values, U.S. direct investment in 1996 was \$1,535 billion, and foreign direct investment in the U.S. was \$1,254 billion. Although these estimates are roughly the same, they remain out of line with the associated investment earnings. Are the returns of foreigners on direct investment really so low, or are our direct investments still undervalued? It's a puzzle.

Even though recent measurement initiatives have not resolved the conundrum that the United States continues to earn a higher rate of return on its assets abroad than foreigners earn on their assets here, kudos to unsung federal statisticians for their recent initiatives to improve data quality. Their efforts will permit a more accurate reading of history and more informed decision making.

—William G. Dewald

<sup>1</sup>"The U.S. International Investment Position Conundrum," *International Economic Conditions*, November, 1994.