While the media continuously bemoans an assumed US dependence on foreign capital, a recap of the actual transactions involved reveals the reverse.

Let’s begin with the example of US consumer buying a German car.

If the consumer pays cash for it, the consumer’s checking account in a US bank is debited and the German carmaker’s account is credited, thereby increasing foreign savings of USD financial assets. Total deposits in the US banking system remain unchanged.

If the consumer borrows to buy the car, the bank makes a loan to the consumer, which results in a loan on the asset side of the bank’s balance sheet and a new deposit on the liability side (loans create deposits). After the car is paid for the German car company has the new bank deposit. Consumer borrowing increased total bank deposits and funded foreign savings of USD.

That’s what the finance behind the trade gap is all about – foreigners desire to net save USD financial assets and sell goods and services to the US to obtain those assets.

Following the above transaction the foreign holder of USD bank deposits may instead desire to purchase US Treasury securities. At the time of purchase, the seller of the Treasury security becomes the new holder of the bank deposit, and the foreigner the new holder of the Treasury security. (If the foreigner buys securities directly from the Treasury the result is the same.)

The US government is now said to have foreign creditors, and the US is said to be a debtor nation.

While this is true as defined, a look past the rhetoric at what the US government actually owes the holder of the Treasury security is revealing. What the government promises is that at maturity the foreigner’s security account at the Fed will be debited, and his bank’s reserve account at the Fed will be credited for the balance due.

In other words, the US government’s promise is only that a non-interest bearing reserve balance will be substituted for an interest bearing Treasury security. This is not a potential source of financial stress for the government.

**Source:**

<http://moslereconomics.com/mandatory-readings/the-innocent-fraud-of-the-trade-deficit-whos-funding-whom/>