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Foreign Holdings of Federal Debt

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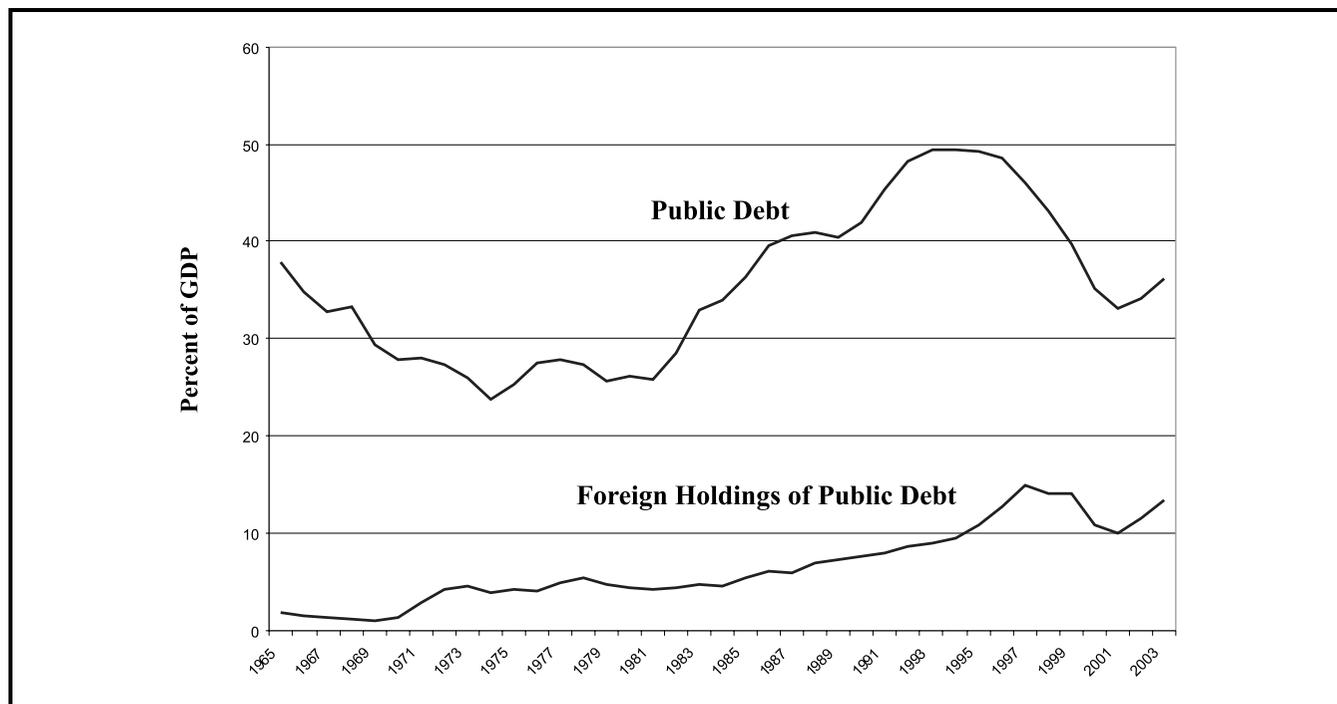
The share of public debt held by foreigners rose from 15 percent in the 1970s to 24 percent in the 1990s.¹ By 2003, the share had reached 37 percent — the highest level in at least 40 years.² A rising average share implies an even more steeply rising foreign share of new debt

¹ Data in the text and graph are taken from “Major Foreign Holders of Treasury Securities,” at <http://www.ustreas.gov/tic/mfh.txt>; “The Budget and Economic Outlook: Fiscal Years 2004-2015,” Table F-2, and “Analytical Perspectives, Budget of the US Government, FY 2005,” Table 15-6.

² The 1982 Special Analyses of the Budget (page 117) notes that “The federal debt during most of American history was held almost entirely by individuals and institutions within the US. In 1946, the debt held in foreign official balances was about \$2 billion, less than 1 percent of the debt held by the public. In the following years the debt held abroad tended to grow gradually and rose to \$10 billion in the late 1960s.”

issues. In the past three years, foreigners have financed 80 percent of the increase in public debt. These trends mirror secular declines in the U.S. current account and net international investment position.

Japan alone accounted for more than one-third of all foreign holdings in 2003, and about 40 percent of the increase in debt between 2000 and 2003 (not shown). China and the United Kingdom together accounted for roughly 18 percent of the debt in 2003 and 28 percent of the increase between 2000 and 2003. Foreign governmental institutions — in particular, central banks — account for 60 percent of foreign-held federal debt. This fraction has held steady since 2000 but it is of interest because governmental institutions have portfolio considerations different from those of private investors, and in particular may place a greater weight on political factors relative to economic concerns.



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