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BUSH ADMINISTRATION INCREASINGLY RELIES ON CHINA AND OPEC TO FINANCE U.S. DEBT, REPORT SHOWS

Washington, DC—The Bush Administration has allowed the United States to become increasingly dependent on foreign purchases of U.S. Treasury securities to finance the federal budget deficit, and future U.S. national income will be depressed by payments to foreign holders of U.S. debt, according to a new study by Democrats on the Joint Economic Committee (JEC) and the House Committee on Financial Services.

"If the United States does not begin to take steps to reduce its unsustainable dependence on foreign borrowing in an orderly way, there could be a run on the dollar and that could precipitate an international financial crisis and a sharp increase in interest rates," the report warned.

Sen. Jack Reed (D-RI), Ranking Democrat on the JEC, **Rep. Carolyn Maloney** (D-NY), Senior House Democrat on the JEC, and **Rep. Barney Frank** (D-MA), Ranking Democrat on the House Financial Services Committee, today released the report, *Relying on the Kindness of Strangers: Foreign Purchases of U.S. Treasury Debt*. Key findings from the study include the following:

- At the end of fiscal year 2005, 42.1 percent of the public debt of the United States was held by foreigners, including foreign governments. That foreign ownership share rose by 11.8 percentage points just since 2001 and will be higher still when the data for 2006 are released.
- Foreign ownership of Treasury securities more than doubled from $1.0 trillion in January 2001 to $2.2 trillion in August 2006. China's holdings rose 450 percent, from $61.5 billion to $339 billion. The OPEC nations have doubled their holdings to over $100 billion in the past two years.
- The fiscal discipline of the 1990s put a halt to rising federal debt and rising foreign-ownership, but both have grown since 2001, with foreign holdings growing faster than the overall public debt.
- Since 2001, foreign purchases of U.S. Treasury debt have almost certainly contributed to keeping interest rates lower than they otherwise would have been in the face of large federal budget deficits, but the United States must reduce its heavy dependence on foreign borrowing in order to avoid a run on the dollar and a steep rise in interest rates.
- Even without a run on the dollar, the need to pay interest of $100 billion or more per year on foreign holdings of Treasury securities will reduce U.S. national income.

"Our reliance on China and other nations to finance our debt is the result of a deliberate policy by the Bush administration, one that reversed course from the Clinton administration and has favored deficit financing of tax cuts and federal spending over a prudent fiscal policy. It will take years of sound fiscal policy to reduce our reliance on foreign lenders and return the federal debt to a prudent level," the report concludes.

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