40% of U.S. Treasuries are held by foreigners

The U.S. government, and the monetary system of the United States, now have a heightened strategic vulnerability: Currently nearly 40% of all marketable U.S. Treasury securities—bills, notes, and bonds—are held by foreign interests, and at a moment of financial tension and crisis, these could be unloaded on the world's markets. The trigger would be the sudden need of foreign holders of U.S. Treasuries, such as foreign central banks and commercial banks, to raise cash through liquidating their Treasury holdings. There are now $1.279 trillion worth of Treasuries in foreign hands: Were even one-quarter or one-third of these to be unloaded within the span of a few months, the value of U.S. Treasuries, and therefore, of the U.S. dollar, would fall through the floor.

A plummeting dollar would expose U.S. economic and foreign policy, to a significant extent, to London's blackmail. The U.S. Treasury and the Federal Reserve System have worked out an arrangement, in the event of a financial emergency in Japan, to extend collateralized loans to Japan's banks, to avert those banks having to sell their U.S. Treasury securities on the world's market in order to raise cash. But such an arrangement could be pushed beyond the breaking point, if it had to be extended to many countries to prevent wholesale Treasury dumping in the period leading up to and during a financial crash.

According to information provided by the U.S. Treasury's "Foreign Portfolio Investment Survey," in 1993, foreign interests, including foreign governments, foreign corporations (including banks), and foreign nationals, held approximately $607 billion out of what was then America's $2.99 trillion in outstanding marketable U.S. Treasury debt, which represented 20.3% of the total. As of Dec. 31, 1995, this percentage had risen to 26.2%, and as of Aug. 31, 1997, foreign interests held 37.6% of all U.S. marketable Treasury securities.

On the one hand, by having foreigners sop up the entirety of U.S. Treasury debt issued during this interval of nearly four years, U.S. internal credit market funds did not have to buy U.S. Treasuries. Some economists would argue that this kept U.S. interest rates down. But this process added to our vulnerability.

Country holdings

Table 1 shows the foreign holdings of U.S. Treasury securities to have more than doubled in absolute size, from $607 billion at the end of 1993, to $1.279 trillion at the end of August of this year.

Table 2 shows the ownership by country. As of Aug. 31 of this year, of all marketable U.S. Treasury securities in the world, Japan held 9.5%. Britain held 7.5%, having more than doubled its holdings during just the past two years.—*Richard Freeman*

TABLE 1

Marketable U.S. Treasury securites outstanding

	Total marketable U.S. Treasury securities (billions $)	Foreign holdings (billions $)	Foreign holdings as % of total
December 1993	2,990	607	20.3%
December 1994	3,216	685	21.3
December 1995	3,290	862	26.2
December 1996	3,414	1,147	33.6
August 1997	3,401	1,279	37.6

Source: "U.S. Treasury's Foreign Portfolio Investment Survey."

TABLE 2

Major foreign holders of marketable Treasury securities

(billions $)

Country	1995	1996	August 1997
Japan	220.0	286.5	321.2
United Kingdom	123.6	190.3	255.1
Germany	53.7	72.2	78.6
OPEC	28.0	44.0	55.6
Spain	19.3	46.4	53.6
Netherlands Antilles	50.9	63.9	48.3
Hongkong	18.8	33.5	46.5
China	34.9	46.6	43.1
Taiwan	24.0	32.0	34.7
Singapore	29.7	38.8	34.1
Belgium	12.7	14.1	28.2
Canada	25.1	27.0	27.0
Switzerland	37.0	31.3	25.4
Mexico	16.4	20.3	17.9
France	9.2	9.6	9.2
Other	158.9	190.8	200.2
Total	**862.2**	**1,147.3**	**1,278.7**

Source: "U.S. Treasury's Foreign Portfolio Investment Survey."