What? I Owe $13,100 to Foreigners!

The United States national debt stands at nearly $13.5 trillion. It has increased an average rate of $4.1 billion per day since September 28, 2007. With the U.S. population of about 310 million, each person’s share of the debt is $43,500. The U.S. government, running sizable budget deficits, borrows money from various constituencies including the federal trust funds (e.g., Social Security, Medicare, and federal employees’ retirement funds), the Federal Reserve System, and domestic and foreign investors. In particular, nearly one-third of national debt is owned by non-American entities. The concern over external debt is that foreign investors eventually want their money back with interest. When the U.S. government continues to borrow from foreigners, much of the taxes we pay would leak out of the economy in the form of interest payment on external debt, instead of circulating in the nation for public investment on education, health, and infrastructure.

In spite of low interest rates of Treasury securities, foreign governments and other international entities consider the U.S. a safe place for financial investment. Similarly, countries like China, Japan, and oil-exporters, which run sizable surpluses in their trade with the U.S., invest their extra funds in Treasury securities to earn additional income. It is not a coincident that China and Japan - the largest holders of U.S. government bonds - have such large trade surpluses of $227 billion and $47 billion in 2009, respectively.

The U.S. external debt has quadrupled in just one decade. It climbed from $1.0 trillion in December 2000 to $2.0 trillion in December 2005, $3.0 trillion in December 2008, and $4.0 trillion in June 2010. As of July 31, 2010, external debt has ballooned to $4.1 trillion or $13,100 per person. Exactly 41 percent of the U.S. external debt is owned by China and Japan. The United Kingdom is responsible for 9.2 percent of U.S. external debt and Brazil is accountable for 4.0 percent. The debt share of oil exporting countries is 5.5 percent and that of Caribbean banking centers is 3.7 percent. All other countries account for 36.6 percent of the U.S. external debt.
From June 2009 to July 2010, China’s holding of Treasury securities actually declined from $916 billion to $847 billion. Meanwhile, the U.S. debt to Japan climbed to $804 billion from $708 billion. UK’s purchase of Treasury securities blasted to $374 billion from $91 billion. The U.S. debt held by oil-exporting countries climbed to $224 billion from $212 billion. Brazil’s holding of Treasury bonds soared to $162 billion from $136 billion. Likewise, the Caribbean banking centers increased their lending to the U.S. government billion to $151 billion from $149. All other countries followed the same trend by rising their lending to $1.5 trillion from $1.3 trillion. Altogether, the U.S. external debt increased to $4.1 trillion from $3.5 trillion.

The economic outlook of the U.S. dependence on foreign borrowing is grim. During the recession of 2008-2009 and the ensuing sluggish recovery, the federal government adopted an aggressive discretionary fiscal policy. As a result, the federal budget deficit climbed to a projected $1.6 trillion in 2010 from $642 billion in 2008. In the meantime, national debt ballooned to $13.5 trillion from $8.5 trillion. Astonishingly, the U.S. national debt has inflated from 62 to 98 percent of the GDP and interest payment on national debt has risen to $300 billion. Expectations of rising national debt and mounting federal deficit are likely to result in higher interest rates on private loans and rising federal income tax rates, none of which is desirable for sustained economic growth. Loan default, although highly improbable, is a possibility for the future U.S. government finances.
The oil-exporters are mostly the Arab members of the OPEC including Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates. Caribbean banking centers includes Bahamas, Bermuda, the Cayman Islands, Netherlands Antilles, Panama, and British Virgin Islands.

Sources:


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