



## Is Our National Debt Nothing to Worry About?

A national debt is nothing to worry about, because “we owe it to ourselves” —so runs one of the more popular sophisms of Keynesian economics.

As far as the burgeoning U.S. national debt is concerned, the claim that “we owe it to ourselves” is half correct — increasingly, the trillions our government has borrowed to finance its runaway deficit spending are, in fact, owed to ourselves, rather than foreign investors, [according to the New York Times’ Floyd Norris](#). “Americans are [now] buying most of the new Treasuries being issued,” Norris wrote. “Foreign governments, whose purchases were once critical, were net sellers of Treasury securities in the first half of 2010.”



This, in stark contrast to previous deficit runups, when foreign investors — especially governments — from East Asia to Great Britain, were critical customers for Washington’s credit needs. Foreign governments during the first six months of this year reduced their holdings of U.S. treasuries by roughly \$10 billion. If the trend holds for the second half of 2010, it will mark the first time since 2000 that foreign governments have been net sellers of U.S. government debt for an entire calendar year.

Before we read too much into this trend, it is worthwhile to consider that a \$10 billion reduction in foreign debt is a drop in a multi-trillion dollar lake. Although evidence suggests like foreign holders of large amounts of U.S. government debt, like the Chinese government, intend to reduce their exposure to the dollar over time, the Chinese alone still hold well over \$1 trillion in U.S. debt.

But what of the Keynesian canard that the national debt is inconsequential, as long as we owe it to ourselves? While politically, it might be marginally preferable for Americans rather than foreign governments (especially rivals like China) to hold American government debt, in economic terms there is little difference. Either way, debt must be repaid, and if governments attempt to default on or otherwise unilaterally change the terms of repayment on debts, whether owed at home or abroad, confidence is quickly lost, currencies lose value, and investors will refuse to purchase new debt.

Until now the U.S. government has never had difficulty finding purchasers — public or private, foreign or domestic — for the debt it issues. But if the feds continue the riot of deficit spending, and the inflationary printing of dollars to finance it, the day may soon come when the U.S. Treasury can no longer find willing creditors.



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