

Global Safe Haven Bonding Foreign and Domestic Owners of the U.S. Public Debt

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Global Safe Haven

Bonding Foreign and Domestic Owners of the U.S. Public Debt

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Abstract

This paper offers new theoretical and empirical insights to explain the resilience of the U.S. Treasuries market as a safe haven for global investment. Going beyond the standard systemic explanation, the paper highlights the importance of domestic politics in reinforcing the safe haven status of U.S. Treasury securities. In particular, the research shows how a formidable “bond” of interests unites domestic and foreign owners of the public debt and works to sustain U.S. power in global finance. Foreigners who now own roughly half of the U.S. public debt have something to gain from their domestic counterparts. The top one percent of U.S. households that dominate domestic ownership of the U.S. public debt have considerable political clout, thus alleviating foreign concerns about the creditworthiness of the U.S. federal government. Domestic owners of the U.S. public debt, in turn, have something to gain from the seemingly insatiable foreign appetite for U.S. Treasury securities. In supplying the U.S. federal government and U.S. households with cheap credit, foreign investors in U.S. Treasuries help to deflect challenges to the top one percent within the wealth and income hierarchy.

Keywords: public debt, power, global finance, capital flows, global financial crisis, inequality

Introduction: Explaining Resilience

Why has the U.S. Treasuries market maintained its status as a safe haven since the onset of the global financial crisis?¹ For some pundits, the fact that investors continue to treat U.S. Treasury securities as the safest asset in the world seems counter-intuitive, if not completely contradictory. According to Niall Ferguson (2010: 9), the crisis-era deterioration of the U.S. fiscal position means that “U.S. government debt is a safe haven the way Pearl Harbor was a safe haven in 1941”.

Escalating levels of public indebtedness, successive rounds of unconventional monetary policy (so-called “quantitative easing”), and political wrangling over the debt ceiling, have rattled foreign confidence in U.S. Treasuries. And yet, despite growing signs of discontent, vast sums of money from all over the world continue to flood into the U.S. Treasuries market, allowing the federal government to borrow at relatively low rates.² Foreign official and foreign private investors currently own around half of the U.S. public debt and this foreign appetite for U.S. Treasuries shows little sign of abating.

In this article, I offer new theoretical and empirical insights to explain the resilience of the U.S. Treasuries market as a global safe haven. My analysis is framed primarily as a critical engagement with Eswar Prasad (2014), whose book, *The Dollar Trap: How The U.S. Dollar Tightened its Grip on Global Finance*, offers a rigorous and insightful assessment of U.S. financial power since the crisis.

Prasad’s explanation of U.S. resilience relies on what we might term both systemic and domestic factors. According to the systemic explanation, which finds wide purchase in both academic and political circles, U.S. Treasury securities maintain their safe status simply because of a lack of safe haven assets in the rest of the world. But crucially, as Prasad points out, this safe haven status is reinforced by the current configuration of the U.S. domestic policy economy. Prasad argues that the dominant domestic owners of the public debt are retirees and near-retirees that wield considerable power within U.S. electoral politics.

Domestic owners of the public debt, in this sense, provide a powerful check on politicians; they pressure the federal government to maintain its fiscal credibility, which in turn, bolsters the safe haven status of U.S. Treasury securities. As such, Prasad contends that foreign and domestic owners represent a powerful bloc of interests supporting the continued resilience of the U.S. Treasuries market as a safe haven for global investors.

What makes Prasad’s account so compelling is that it demonstrates the role that domestic politics play in shaping U.S. global financial power. But the argument that I make here departs from Prasad in a number of important respects. I suggest that Prasad is right to anchor part of his explanation of U.S. resilience in domestic political economy, but that his account is, at best, incomplete. As an alternative, I argue that the power of domestic owners of the public debt derives not from their age or their status as retirees *per se*, but instead from their class position at the very apex of the wealth and income hierarchy.

My argument has both quantitative and qualitative dimensions. Prasad implies that the power of domestic owners hinges, first, on their concentrated holdings of U.S. Treasury securities, and second, on the cohesiveness of their interests. Quantitatively, I demonstrate

that domestic ownership of the U.S. public debt is much more concentrated in favour of the now-infamous top one percent of households than it is for retirees and near-retirees. Qualitatively, I draw upon studies showing that the interests of the top one percent are much more cohesive than they are for older Americans. Taken together, the quantitative and qualitative evidence indicates that class, rather than age, is a more effective category for conceptualizing the power of domestic owners of the public debt.

This alternative focus on class does not modify Prasad's general conclusion. Whether the power of domestic owners of the public debt is conceptualized in terms of class or age, we still end up concluding that their interests are closely aligned with their foreign counterparts. But what this class-based approach does is give us a deeper and more complex understanding of the interests that unite foreign and domestic owners of the public debt.

What I argue, through the intended use of wordplay, is that the "bond" between domestic and foreign owners is actually much stronger than Prasad's account would have us believe. Focusing on age, Prasad illustrates convincingly how foreign owners of the public debt benefit from the existence of powerful domestic counterparts. But what the alternative focus on class tells us is that domestic owners also have much to gain from foreign ownership of the public debt.

How exactly does this work? Seemingly insatiable foreign appetite for U.S. Treasury securities means access to cheaper credit in the U.S. Cheaper credit relieves political pressures for progressive taxation and allows low and middle income Americans to keep up consumption in the wake of stagnant wages. On both counts, foreign investors in the public debt help to deflect challenges to their domestic counterparts within the wealth and income hierarchy. At least in the short-term, the bond of interests between owners of the public debt reinforces the dominant position of the U.S. within global finance. In this sense, the research here supports arguments that what we have witnessed thus far is a "status quo crisis", one that has failed to bring about any fundamental transformation to the global financial order (Helleiner 2014).

My analysis in the remainder of this article unfolds in four sections. In the first section, I flesh out in greater detail Prasad's arguments on the systemic and domestic factors that account for the resilience of the U.S. Treasuries market as a global safe haven. I then develop an alternative framework in section two for thinking about the relationship between ownership and power, and subject the age and class categories to quantitative and qualitative evaluation. In the third section, I illustrate how the alternative class focus allows us to appreciate the deeper "bond" between foreign and domestic owners of the public debt. In the fourth and concluding section, I summarize the research findings and discuss how they support arguments of a "status quo crisis".

The Trap of Dollar Domination

Prasad's Puzzle

At the heart of Prasad's *Dollar Trap* is an attempt to explain why the U.S. Dollar (USD) managed to maintain its dominant global position in the wake of the crisis. Figure 1 gives an indication of what is at stake.

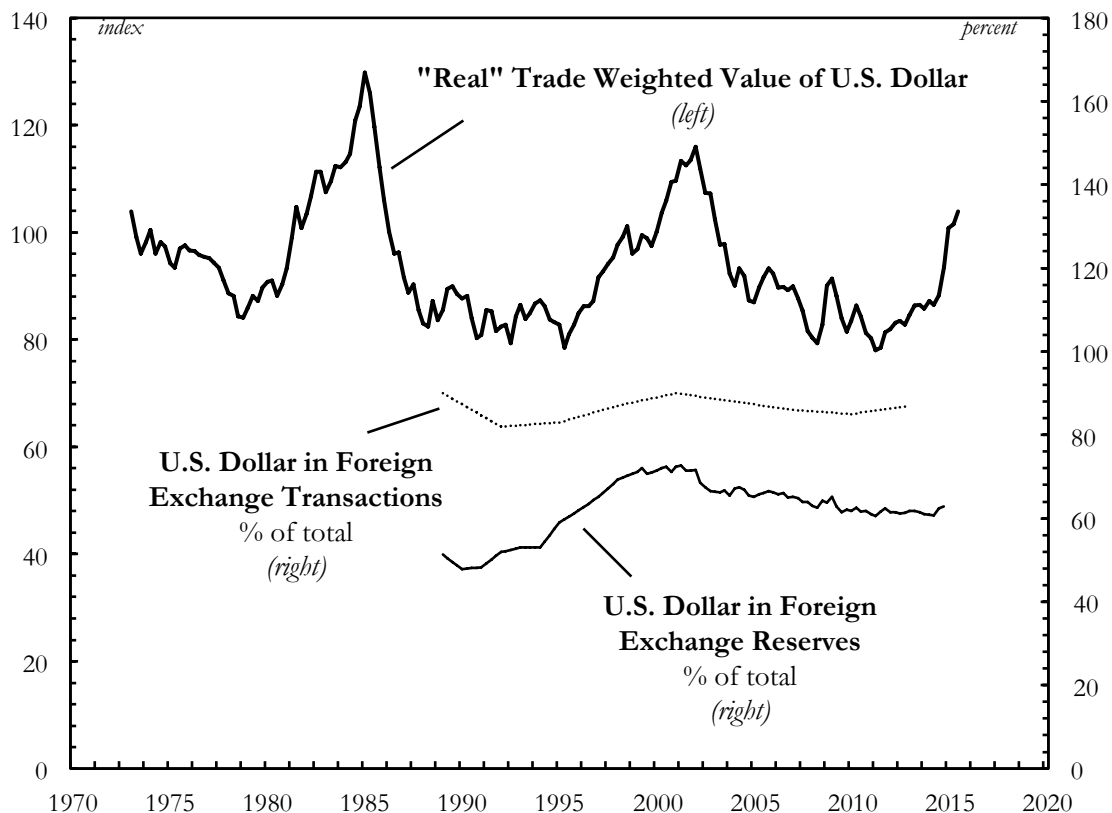


Figure 1 Measures of Dollar Resilience in Global Finance

Note: For top series, U.S. Dollar is indexed against other major currencies (Euro, Canadian Dollar, Japanese Yen, UK Pound, Swiss Franc, Australian Dollar and Swedish Krona). For middle series, data are annual until 1994 and quarterly after.

Source: For top series, FRED Economic Data (<https://research.stlouisfed.org/fred2/>); for middle series, 1989 to 1994, Eichengreen and Mathieson (2000), 1995 to present, IMF COFER database (<http://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4>); for bottom series, Bank of International Settlements (1998, 2010, 2013) Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity.

The bottom series in the figure measures the total share of government foreign exchange reserves that are held in USD. Central banks around the world increased the share of dollars in their reserves from around 50 percent in 1989 to over 70 percent in the early 2000s. From that high point, dollar reserves then gradually fell to just over 60 percent in the years preceding the crisis and have remained at that level ever since. The middle series in the figure plots the total percentage of foreign exchange transactions involving the USD. In 1989, the USD was involved in 90 percent of all foreign exchange transactions in the world and this has changed little in the intervening years. In 2013, the use of the USD in foreign exchange transactions stood at 87 percent. Finally, the top series in the figure shows the “real” trade-

weighted value of the USD against other major currencies. After significant gains in the 1990s, the value of the USD fell over 18 percent from 2001 to 2007. Yet with the beginning of financial turbulence in 2008, the value of the USD held remarkably steady and actually began to *climb*. From mid-2008 to mid-2015, the USD increased over 30 percent relative to other major currencies.

Prasad regards the crisis-era strengthening of the USD as one of the great puzzles of global finance. And the reason why dollar resilience appears so puzzling is precisely because it is the opposite of what many respected investment gurus, financial journalists, politicians and academics had been predicting (see e.g. Krugman 2007). Of course prophecies of the dollar's demise have been around since at least the 1960s (Kirshner 2008: 418). But the most recent predictions, Prasad notes, seemed much more reliable because they came during a period of unprecedented deterioration in the U.S. current account balance.

As indicated in the thin line in Figure 2, from a balanced position in 1991, the U.S. current account began to register consistent deficits and reached its historic nadir of six percent of GDP 2005.³ Large current account deficits persisted in the lead up to the crisis, reaching five percent of GDP in 2006 and 2007. Those anxious about large current account deficits argued that they stemmed from a dangerous tendency of U.S. households and government to live beyond their means (Iley and Lewis 2007: 3). According to this view, the large and chronic deficits were unsustainable mainly because they financed the wasteful military adventures of a profligate government and a housing bubble. All that was needed to unravel the current dynamic was a catalyst in the form of a financial crisis. With the onset of a crisis, there would be massive capital flight, leading to a sudden collapse of the dollar and an end to U.S. "exorbitant privilege" in the global political economy (Eichengreen 2011: 4).

Treasuries as Safe Haven

Why did so many respected voices get it wrong? Why did the dollar avoid a collapse even though the U.S. was the epicenter of the global financial crisis? For Prasad, the reason why the predictions failed was because they overlooked the role that the USD, especially the U.S. Treasury securities market, plays as store of value for global investors. Representing over \$18 trillion in 2015, the market for U.S. Treasuries is the largest and most liquid financial market in the world. Mainly because of this depth and liquidity, U.S. Treasuries are deemed the safest asset in the world, treated as "risk free" by regulators and asset pricing models. And this global demand for U.S. Treasuries, especially during periods of financial turbulence, buoys the value of the dollar.

As the thick line in Figure 2 shows, the share of the U.S. public debt owned by the "rest of the world" has risen rapidly over the past four decades. During the postwar period (1950-1970) the rest of the world consistently owned on average less than four percent of the U.S. public debt. This share increased to 16 percent in the 1970s and 1980s before climbing to 23 percent in the 1990s. Then from 2000 until 2007, the share of U.S. Treasury securities owned by the rest of the world increased from 29 to 47 percent. Since the onset of the crisis, foreign ownership has held steady, hovering around 50 percent.

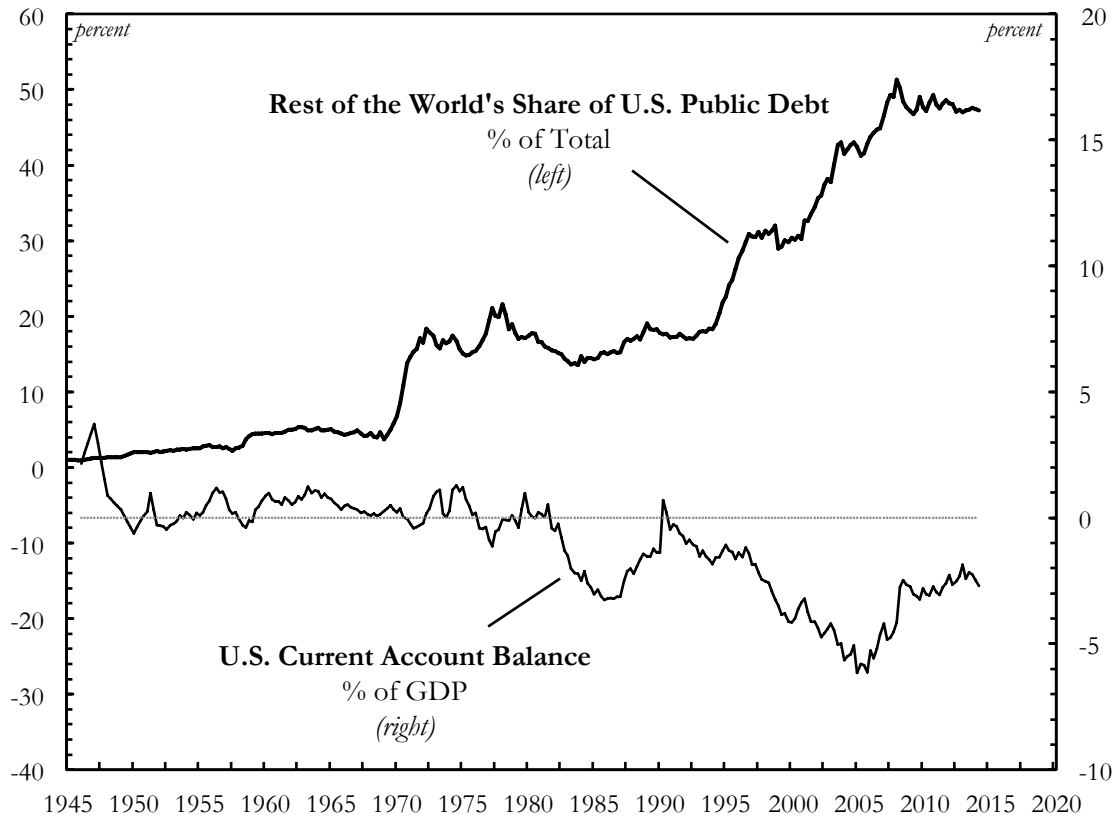


Figure 2 US Current Account Balance and Foreign Share of Public Debt

Note: "Rest of the World" includes both foreign official and foreign private investors.

Source: Federal Reserve Flow of Funds Accounts, for thick series, table L.209; for thin series, Tables F.2 and F.8.

In recent years, global demand for U.S. Treasuries has been fuelled by a number of developments (Prasad 2014: 12–13).⁴ Since the East Asian Financial Crisis in 1997, the central banks of emerging markets have been rapidly accumulating U.S. Treasuries as part of their growing stockpile of foreign exchange reserves. As a form of “self insurance”, these vast reserves help to protect emerging markets from the volatility associated with global capital flows. Rapid accumulation of reserves in the form of Treasury securities is also a reflection of the export-led growth strategies implemented in emerging markets, especially China. Export-oriented countries have run persistent trade surpluses, accumulating massive dollar reserves, which are then recycled back into the U.S. Treasuries market. In addition to earning interest, this dollar recycling prevents emerging market currencies from appreciating against the dollar, thus helping exporters to maintain their competitiveness in global markets. In times of crisis, official demand only increases and is joined by the demand of foreign private investors, who seek out Treasuries as a refuge from global tumult.⁵

Thus according to Prasad, dollar strength is due in large part to the continued role played by the U.S. Treasuries market as a safe haven for global investment. Yet the fact that global investors continue to treat U.S. Treasuries as the world's safest asset might itself seem perplexing. After all, the global financial meltdown originated in the U.S. And since then, various developments have compromised the safe haven status of U.S. Treasuries. Most importantly, the U.S. public debt has rapidly increased in the wake of the crisis, and in 2013, breached the 100 percent of GDP for the first time outside of World War II.⁶ With this massive expansion of indebtedness has come growing concern about the fiscal credibility of the U.S. federal government.

Other crisis-era developments have brought into question the role of the U.S. Treasuries market as a safe haven. When initially implemented from 2008 to 2013, the three rounds of unconventional monetary policy, so-called “quantitative easing”, provoked accusations that the U.S. was “printing money” to inflate away its growing debt burden. Political wrangling over the debt ceiling brought the federal government to the brink of technical default twice in 2011 and 2013, further compounding fears about the willingness of the U.S. to uphold its obligations to creditors. In response to the debt-ceiling debacle of 2011, Standard and Poor's even took the step of downgrading the federal government's credit rating, the first time in seventy years, from a pristine AAA to AA+.

The Systemic Explanation

All of these examples challenge the “safe” and “risk-less” image of the U.S. federal government. Why, then, do investors from all over the world continue to pour vast sums of money into U.S. Treasuries? Prasad relies partially on what we might term a “systemic” approach to explain the resiliency of the U.S. Treasuries market as a safe haven. According to this commonly espoused explanation (Cooper 2009: 1–2; Drezner 2009: 21–22: 290; Eichengreen 2011: 126–133; Kirshner 2014: 1014; Stokes 2014: 1073), resilience has little to do with U.S. strength, but the fact that U.S. public debt is still the best investment option in a world of bad investment options. In other words, there is simply a shortage of safe assets in the global financial system at present (Lysandrou 2003: 522). And it is only when we compare U.S. Treasuries to the alternatives that we appreciate their (relative) safety.

Since its introduction, the Euro has gained significance as a global currency and has been touted by many as the long-run challenger to dollar dominance. But the debt crisis in its periphery has exposed deep structural flaws in the Eurozone (Germain and Schwartz 2014; Otero-Iglesias and Steinberg 2013). The depth and liquidity of the U.K. government bond market pales in comparison to that of the U.S. Treasuries market. Despite a large government debt, Japan has its own economic troubles and its government bond market does not attract much investment from abroad (Prasad 2014: 106–107). Chinese government debt may one day challenge the U.S. as a safe haven asset, but as of now underdeveloped financial markets, and their accompanying political and legal institutions, dim these prospects.⁷

A global crisis presents an opportunity to re-think notions of “risk free”. Aside from the securities of other governments, are there any other assets that might supplant U.S. Treasuries as the primary global safe haven? In the early stages of the crisis, China spearheaded calls to give a more prominent role to Special Drawing Rights (SDRs), the

IMF's supranational reserve asset (Helleiner 2014: 68–78). For the first time in three decades, the IMF approved a new issuance of SDRs in 2009, to the tune of approximately \$250 billion. Yet even with the most recent issuance, SDRs represent only four percent of global reserve assets and initiatives to further strengthen their role have been met with staunch resistance from the U.S., which holds veto power over IMF decision-making in this area (ibid.: 74–77). The collapse of some of the seemingly most solid corporations during the crisis means that private securities are also highly unlikely to supplant Treasuries securities as a safe haven asset (Prasad 2014: 82–83; cf. Tett 2011a).

Thus, in the current climate, global investors have little choice; they are trapped into a global financial system characterized by dollar dominance. This systemic trap, as Prasad (2014: xv) notes, is particularly frustrating for foreign central banks such as the People's Bank of China and the Bank of Japan. These central banks own trillions of dollars in Treasury securities, but with the likely prospect of a long-term gradual decline of the USD, face substantial losses when the time comes to cash in their Treasuries reserves for domestic currency. Central banks could try to avoid this long-term pain by offloading Treasuries now, but this might initiate a panicked sell-off of Treasuries. From the perspective of the central banks of export-led economies, a sell-off of this type would have the undesirable effect of lowering the value of the USD and boosting the competitiveness of the U.S. in global markets.⁸

In a now-famous quote that exemplifies the systemic explanation, Luo Ping, the director-general of the China Banking Regulatory Commission, echoes the frustrations that foreign central banks feel with dollar domination. When asked whether China would diversify its holdings away from U.S. public debt, Ping replied: “Except for U.S. Treasuries what can you hold? Gold? You don't hold Japanese government bonds or U.K. bonds. U.S. Treasuries are the safe haven. For everyone, including China, it is the only option...so we hate you guys but there is nothing much we can do” (Quoted in Prasad 2014: 117).

Domestic Political Economy

As was mentioned earlier, the systemic explanation of the resilience of U.S. global financial power finds broad purchase in both academic and political circles. But the systemic approach leaves some burning questions. For one, if the U.S. grip on global finance is so tight, then shouldn't the Federal Reserve be tempted to engage monetary policy that would inflate away the public debt? This type of “default by stealth” seems particularly appealing now that so much of the U.S. public debt is owned by the central bank of China, a geo-strategic rival (see also Eichengreen 2011: 119). On the flipside, shouldn't foreign creditors be terrified about the safety of their investments in U.S. Treasuries given this threat of default by stealth? Aren't they taking a stupid risk in continuing to put their faith in the federal government?

The answer Prasad gives to these questions is a definitive “no”. While the USD will likely continue its long-term gradual decline, Prasad insists that the U.S. Treasuries market will maintain its safe haven status. One of the main reasons for this sanguinity has to do with domestic politics. If the Federal Reserve's own holdings are excluded, then Prasad calculates that ownership of the U.S. public debt is roughly split 50/50 between foreign (official and private) and domestic (private) investors. Prasad suggests that the most important domestic owners of U.S. Treasuries are retirees and those approaching retirement age. This group has

a low risk appetite and high savings and therefore invests heavily in Treasury securities, either directly or indirectly through their ownership of pension and mutual funds.

Now, according to Prasad (2014: xiv–xv), these domestic owners of the other half of the U.S. public debt constitute a “powerful political constituency”. And he claims that the power and influence of domestic owners of the public debt is amplified precisely because of their age. Older people, he points out, tend to vote in greater numbers. And because many older people also live in swing states such as Florida, they play a key role in determining the outcomes of presidential elections.⁹

Powerful domestic owners of the U.S. public debt would bear a significant cost if the U.S. were to try to inflate away its debt burden. So Prasad’s essential argument is that the interests of foreign and domestic owners of the public debt are united since both have a keen interest in the continued sanctity and creditworthiness of U.S. Treasuries. Foreigners can maintain their confidence in their holdings of U.S. Treasuries thanks in large part to the power and influence of domestic owners, who play a key role in pressuring the federal government to uphold its debt obligations. The analysis therefore points toward a powerful bloc of interests that will continue to support the status quo in global finance, which is underpinned by dollar dominance and the safe haven status of the U.S. Treasuries market.

The Locus of Domestic Power

Age versus Class

Prasad’s approach stands out in the massive literature on this subject because he augments the standard systemic explanation with careful consideration of how domestic politics reinforces the role of the U.S. Treasuries market as a global safe haven. What, then, are we to make of Prasad’s identification of retirees and near-retirees as the dominant domestic owners of the public debt? This is an important question to consider given that Prasad’s age category goes against the growing trend to identify power based on the statistical rankings of top wealth holders and income earners. This alternative approach emphasizes the power and influence that owners enjoy thanks to their class position at the top of the wealth and income hierarchy.

Thanks in large part to the stunning successes of Thomas Piketty’s (2014) *Capital in the Twenty First Century*, issues of inequality and the “class warfare” that pits the top one percent against the rest of the population have gained a great deal of attention, even in mainstream economics (see Stiglitz 2012). In *Capital*, Piketty (2014: 250) roughly divides society into three main classes: the “lower class” at the bottom 40 percent of distribution, the “middle class” in the middle thirty percent of distribution and the “upper class” in the top ten percent of distribution. The “upper class” is then further split into the top one percent, which represents the “dominant class”, and the remaining nine percent, which represents the “wealthy class” (ibid.: 252). As a group that occupies a prominent place within society, the top one percent forms the analytical focus of this class-based statistical schema.

Piketty (2014: 252) readily admits that his statistical categories lack the “poetry” and familiarity of traditional class categories (e.g. proletariat versus bourgeoisie or workers versus top managers). But the main advantage of designating classes based on their position in the

wealth and income hierarchy is that it gives us uniform categories through which to explore patterns of inequality across space and time. Although mostly implicit within his work, Piketty suggests that the appropriateness of our chosen statistical categories rests on what they tell us about the prevailing political economic order, and especially, about the power of the dominant class to shape that order. Piketty (ibid.: 254) claims that the very purpose of mapping inequality is that it allows us "...to determine whether 'the 1 percent' had more power under Louis XVI or under George Bush and Barack Obama".

Researching the Class Dimension

In my own research, I have explored the class dimensions of domestic ownership of the U.S. public debt using similar statistical techniques (Hager 2014, 2015, 2016; see also Tett 2013). Within the U.S. household sector, the research uncovers a U-shaped pattern in the distribution of the public debt over the past century, one that more or less mirrors the distribution of general wealth. In other words, when the top one percent's share of Treasury securities increases or decreases so too does its share of household wealth more generally.

In 1920s the top percentile owned 45 percent of all household sector holdings of Treasury securities. This share gradually fell over the following decades and reached its nadir of around 20 percent in 1960s. The top percentile's share of the public debt then gradually increased to one-third by the early 1980s and continued to increase, reaching 38 percent in 2007. What is most shocking is the rapid increase in ownership concentration that has taken place since the onset of the global financial crisis. By 2010, the top percentile's share of public debt was nearing its historical highs at 42 percent; by 2013, the share had increased even further to a shocking and unprecedented 56 percent.

Data on U.S. corporate sector ownership of the public debt are much patchier and more inconsistent. Examining three historical snapshot periods (1957-1961; 1977-1981; 2006-2010), my research maps the corporate share of the public debt that is owned by the largest 2,500 U.S. corporations. Like the household sector, my research shows that corporate concentration in ownership of the public debt moves in sync with concentration in general corporate wealth.

The corporate share of the public debt owned by large corporations remained steady from the first period (1957-1961) to the second period (1977-1981) at around 65 percent. By the third period (2006-2010), large corporations had increased their share of corporate holdings of the public debt to 82 percent. Again, much like the household sector, there has been rapid concentration in corporate holdings of the public debt since the onset of the global financial crisis. In 2006 before the crisis hit, large corporations owned 77 percent of the corporate share of the public debt and by 2010, at the height of the crisis, this share climbed to 86 percent.

Crucially, what my research also uncovers is that these corporate sector holdings of the public debt are entirely dominated by the financial sector, and especially since the mid 1980s onwards, by money managers such as pension funds and mutual funds. While widely held pension funds have seen their share of the public debt fall sharply since the mid-1980s, mutual funds, which are dominated by the top one percent, have seen their share rapidly increase over the same period. Thus whether through direct ownership or indirect ownership

through money manager funds, I argue that ownership of the public debt over the past three and a half decades, and especially since the onset of the crisis, has become increasingly dominated by the top one percent.

What are the consequences of concentration in ownership of the public debt? Does concentration give dominant owners of the public debt power over government? These are difficult questions to explore empirically because the U.S. federal government is a complex entity, subject to many influence and channels of power beyond the Treasuries market. But what my research does show is that growing concentration in ownership of the public debt is bound up with a transformation in government policy, one that privileges the interests of bondholders over the general citizenry. A simple content analysis of the *Economic Report of the President* reveals that, as ownership concentration increases, terms that we associate with the interests of bondholders (e.g. international, investors, interest rates, confidence), take precedence over terms that we associate with the general citizenry (e.g. national, public opinion, citizens, loyalty) (Streeck 2014: 81). In this sense, inequality in ownership of the public debt and inequality in representation within government are really two sides of the same coin.

An Age-Old Question

My own approach to the power of domestic owners of the public debt is potentially at odds with that of Prasad. But how do we go about evaluating and comparing my class category to his age category? This question, speaks to an age-old question in political economy: How do we aggregate seemingly heterogeneous human beings into social groups?

When it comes to conceptualizing the power of domestic owners of the public debt, there is nothing *a priori* to suggest that class is superior to age. As a methodological starting point to evaluate the two categories in a transparent and rigorous way, I propose the following rule of thumb: If a smaller population group holds an ownership share greater than or equal to a larger population group, we should privilege the smaller population group in an analysis of power. Expressed another way, the rule of thumb states that if two groups represent the same amount of the population, then we should privilege the group with the larger ownership share in an analysis of power.

I should stress that this simple rule of thumb offers only a starting point for choosing different analytical categories; it allows us to generate working hypotheses about the power and cohesiveness of social groups. As hinted at earlier in our discussion of Piketty, the appropriateness of our chosen categories still rests on what they tell us about the power of social groups and the way that these groups, whether conceptualized on the basis of class, age or something else, come to shape the political economic order. Ultimately, we should judge competing categories based on the degree to which they illuminate vital yet overlooked aspects of a given phenomenon. This type of framework requires that we bolster our quantitative analysis with a qualitative story, one that systematically links together the quantities and qualities of power (Nitzan and Bichler 2009: 2013; Patomäki 1996).

A Rule of Thumb

The simple rule of thumb outlined in the previous section links ownership and power, claiming specifically that the greater the ownership share of a given social group, the greater its power. Informed by this rule of thumb, Table 1 uses data from the Federal Reserve's 2013 Survey of Consumer Finances (SCF) to compare ownership of the public debt based on age and class. The measure of public debt in the table is broad: it includes both direct household holdings of the public debt, as well as pension and mutual fund wealth, which is assumed to represent indirect ownership of the public debt.

Table 1
Age Versus Class: Share of Public Debt in 2013
(Direct & Indirect)

	% of Public Debt	% of Population	% PD / % Pop.	Per Capita Holdings
60+	53	33	1.6	\$57,000
Top 1%	33	1	33	\$1,150,000
Top 3.4%	53	3.4	16	\$550,000
Top 33%	95	33	2.9	\$100,000

Note: Indirect holdings include ownership of pension and mutual funds. Pension funds include all IRA and Keogh accounts and other pension assets; mutual funds include all stock, tax-free, other bond, combination, other and money market mutual funds. Direct holdings include ownership of savings bonds, other federal bonds and U.S. government or government backed bond mutual funds.

Source: Federal Reserve Survey of Consumer Finances.

The first row in Table 1 maps the share of the public debt owned by households with a head of house aged 60 and over, which serves as our proxy for Prasad's retirees and near-retirees. The data show that 60 plus households own over half of the direct and indirect holdings of the public debt in 2013, yet they make up only about one-third of the adult population. Expressed as a ratio, this means that the share of the public debt owned by 60 plus households was 1.6 times large than its share of the population. In absolute terms, the value of investments in the public debt for households aged 60 plus amounted to \$57,000.

At first blush, the data in Table 1 provide some empirical confirmation for Prasad's arguments. What we find is that retirees and near-retirees do indeed dominate ownership of the public debt in the sense that their ownership share is larger than their share of the total population. But our simple rule of thumb implies a relative conception of power. The only way to truly evaluate the age category is to compare its ownership share to the share of another social group. So let's see what happens when we compare age to class.

The remaining rows in Table 1 identify domestic owners of the public debt based on their class position within the wealth and income hierarchy. The second row plots the share of the public debt that is owned by the top one percent of U.S. households ranked by net wealth. In 2013 the top percentile of households owned 33 percent of the public debt, but obviously only make up one percent of the population. Expressed as a ratio, the ownership share of the top one percent was 33 times larger than its share of the population. And on a per capita

basis, the value of the top percentile's investments in the public debt amounted to well over \$1 million.

Rows three and four in Table 1 use measures that allow us to better compare the age and class categories. In the third row we see that the top 3.4 percent of households ranked by net wealth have an ownership stake in the public debt equal to that of households aged 60 and over, which as we saw earlier, represent 33 percent of the population. Finally, the point is further belabored in the fourth row. If we use the top 33 percent of households ranked by net wealth, the same amount of people in the 60 plus grouping, then the ownership of the public debt based on class climbs to 95 percent of the total!

Using our simple rule of thumb to interpret the data in Table 1 it is clear that, in sheer quantitative terms, class, rather than age, is a much better category for locating the power of domestic owners of the public debt. Once we start to dig deeper, we uncover further evidence that brings into question Prasad's age category.

Age Cohesion

One of the main problems with treating retirees and near-retirees as a monolithic category is that ownership of the public debt is unequally distributed among households aged 60 and over. According to SCF data for 2013, 48 percent of all 60 plus households have some direct or indirect stake in the public debt, but these holdings are heavily concentrated. The top ten percent of 60 plus households ranked by net wealth owned 76 percent of all holdings within our age category, while the top one percent of 60 plus households owned a quarter. This suggests that it is not older Americans *per se*, but wealthy older Americans that are united together by their ownership stake in the public debt.

In the *Dollar Trap*, Prasad confines the power of retirees and near-retirees to the electoral realm; deriving their influence from voting. Yet this image of older Americans as a powerful and cohesive voting bloc conflicts with much of the research conducted within the field of gerontology. Existing research indicates that while older Americans do tend to vote in greater numbers, they are greatly divided in terms of their policy preferences and even their partisan affiliation (Holladay and Coombs 2004).

For all of the talk of inter-generational conflict, the empirical record consistently shows little evidence of disagreements on policy, including politically contentious issues such as social spending, between different age groups (Fullerton and Dixon 2010; Hamil-Luker 2001; Rhodebeck 1993; Street and Cossman 2006). In fact, some research indicates that divisions are more likely to emerge within age groups than between them (Day 1993). Recent polling conducted by the Pew Research Center on political typologies found that the ideological profiles of older Americans were evenly split into polarized categories. 33 percent of Americans 65 and over fell into categories most strongly aligned with democrats (e.g. "solid liberals" and "faith and family left") and 32 percent fell into categories most strongly aligned with republicans (e.g. "steadfast conservatives" and "business conservatives") (Desilver 2014).

And despite strong evidence of a growing age gap in electoral politics in recent years, with younger Americans especially ratcheting up their support for the Democratic Party under

Obama (Fisher 2008), party affiliation amongst older Americans is actually still quite split. Pew Research Center (2014) polling data shows that party identification is almost evenly divided among those aged 59 and over. 44 percent of those surveyed identified as Republican or lean Republican, while 46 percent identified as Democrat or lean Democrat.

These facts reveal deep divisions among older Americans and bring into question the popular media image of seniors as a juggernaut within U.S. politics (Holladay and Coombs 2004). Unfortunately, instead of investigating the political views of retirees and near-retirees, Prasad ends up merely replicating the empirically suspect view found in the popular media. When we consider the skewed distribution of Treasury securities among older Americans, as well as the heterogeneity of their political preferences, one thing becomes clear: retirees and near-retirees are a highly questionable category for locating the power of domestic owners of the public debt.

Class Cohesion

What can we say about the cohesiveness of the top one percent as a social group? When it comes to distribution, ownership of the public debt is just as concentrated within the top one percent as it is within our age category. The top 0.1 percent owns roughly a quarter of the public debt owned within the top percentile of households. Yet when it comes to the total percentage of households owning Treasury securities, ownership of the public debt is much more diffuse within the class category. 92 percent of households within the top percentile own Treasury securities directly or indirectly (compared with 48 percent of 60 plus households). Widespread ownership of the public debt within the top one percent suggests a high degree of cohesiveness in purely distributional terms.

If we confine ourselves to electoral politics, then existing research strongly suggests that class, rather than age, is a much better category for understanding the political cohesiveness of domestic owners of the public debt. In addition to commonly shared cultural and consumptive practices (Di Muzio 2015), the top percentile also shares a coherent set of political preferences. Page, Bartels and Seawright's (2013: 65) path breaking Survey of Economically Successful Americans (SESA) not only reveals "political homogeneity" amongst members of the top one percent, but also that political preferences of the top percentile contrast starkly with those of the general public. Most significantly, SESA shows that the top percentile's support for certain policies, especially for social spending cuts and deregulation, is much higher than it is among ordinary Americans.¹⁰

In terms of party identification, Page, Bartels and Seawright (2013: 60) also find a high degree of cohesion within the top one percent. 58 percent of those surveyed identified with the Republican Party and only 27 percent with the Democrats. Furthermore, affluent Americans that do identify with the Democratic Party tend to be much more conservative than the average Democrat on economic issues (ibid.: 60).

The SESA research also indicates that political cohesion within the top percentile is matched by unusually high political activism (Page et al. 2013: 53). 99 percent of affluent Americans surveyed by SESA voted in 2008 and around two-thirds contributed money to political campaigns (as opposed to 14 percent of the general population) (ibid.: 54). The top

percentile was also much more likely to contact politicians directly and in SESA interviews often referred to politicians on a first-name basis (ibid.: 54).

Finally, and perhaps unsurprisingly, existing research indicates that cohesion and activism of affluent Americans translates into significant influence over public policy outcomes (Bartels 2008; Gilens 2005, 2012; Gilens and Page 2014; Winters and Page 2009). In other words, these studies show with a great deal of statistical precision that the preferences of elites consistently influence political decision-making, whether in terms of congressional and senate voting or actual policy changes. With the political system increasingly biased toward the affluent, it is no wonder my own modest content analysis of government documents would find that the interests of bondholders have taken precedence over the general citizenry.

A Deeper Bond

Why does it Matter?

Quantitative and qualitative evidence indicates that the locus of power for domestic owners of the public debt is to be found not with older Americans, as Prasad suggests, but with the top one percent of Americans at the top of the wealth and income hierarchy. What, then, are the exact consequences of this observation? What does an emphasis on the class identity of domestic owners of the public debt reveal that Prasad's account neglects or overlooks?

The alternative focus on class does not alter Prasad's general conclusion. Whether we focus on age or class, we still end up concluding, in line with Prasad, that domestic owners of the public debt represent a formidable political force whose interests are closely aligned with their foreign counterparts. All the alternative focus on class does is reveal that domestic owners are much more formidable than Prasad's analysis suggests. Foreign owners of the public debt can be even more reassured about the abilities of the powerful constituency of domestic owners to pressure the U.S. federal government to maintain its creditworthiness, thereby ensuring the sanctity of the Treasuries market as a safe haven for global investment.

Although the alternative class focus does not alter Prasad's general conclusion, it does illuminate other "bonds" between domestic and foreign owners of the public debt that are neglected in his analysis. Focusing on class, it becomes clear that foreigners are not the only ones to gain from the ownership structure of the public debt as it is currently configured. Powerful domestic owners also have something to gain from foreign investment in the U.S. Treasuries market.

Barry Eichengreen (2011: 118) notes "a remarkable degree of consensus" amongst economists on the role that foreign investment in U.S. Treasuries plays in lowering U.S. interest rates. Francis Warnock and Veronica Warnock (2009: 904) find that capital inflows to the U.S. Treasuries market have a "statistically and economically significant impact" on lowering the yield on 10-year Treasury bonds, an impact that extends to other U.S. financial instruments, including household mortgages. In facilitating access to cheap credit for domestic borrowers, I argue that foreign ownership helps to reinforce the power of domestic owners of the public debt through two main channels.

First, cheap credit for the federal government helps deflect challenges for increased taxation, especially progressive taxation, which would fall more heavily on the incomes of the top percentile of U.S. households that dominate domestic ownership of the public debt. Second, cheap credit for low and middle-income households allows them to maintain consumption habits in the face of decades-long wealth and income stagnation. In this way, cheap household credit helps to dampen resentment toward the top percentile of U.S. households that, again, dominate domestic ownership of the public debt. Each of these channels is discussed in turn.

Government Credit: Reinforcing the “Debt State”

As mentioned earlier, the federal government is currently borrowing record amounts outside of the two world wars, at nearly record-low rates. The availability of cheap credit from abroad relieves political pressures on the government to steer an alternative course in terms of its public finance policies. And this status quo in the public finances, in turn, serves the interests of domestic owners of the public debt at the top of the wealth and income hierarchy.

The ways in which the status quo in the public finances serves domestic owners of the public debt is best grasped through Wolfgang Streeck’s concept of the “debt state”. In his recent book *Buying Time: The Delayed Crisis of Democratic Capitalism*, Streeck (2014) identifies a shift in the advanced capitalist countries away from the post-World War II tax state, which finances its expenditures primarily through progressive taxation, to a neoliberal debt state, which, since the early 1970s, finances its expenditures primarily through borrowing. Three interrelated processes drive the emergence and consolidation of the debt state: gradual increases in government spending, tax revenue stagnation and declining tax progressivity.

According to Streeck, gradually increasing government expenditures in the advanced countries are just a function of capitalist development. As the market deepens and extends its commodifying logic, the government must provide more in terms of infrastructure, social protection, and force. Tax stagnation is, however, the result of a more overtly political process. For Streeck, capitalism has a tendency to concentrate wealth and income in the hands of wealthy households and large corporations that, in turn, augment their power to resist the government’s attempts to extract resources from them. Tax stagnation, in this sense, is bound up with declining tax progressivity. And the successful tax revolt waged on the part of increasingly powerful elites is the main factor explaining the rise of the debt state.

Recognizing the importance of declining tax progressivity allows us to see how the debt state serves the interests of the top one percent. Growth in the public debt is due primarily to successful efforts on the part of the top one percent to reverse progressive taxation. As a result, the top percentile has more money freed up to invest in the growing stock of U.S. Treasury securities, which are particularly appealing during times of financial turbulence. What the debt state ultimately means is that the government now borrows from powerful elites when previously it taxed them. In choosing to supply elites with “risk free” Treasury securities instead of taxing their incomes, the debt state comes to reinforce existing patterns of social inequality.

My own research provides empirical confirmation for Streeck's conceptual schema for the U.S. case. On average, federal expenditures have been gradually increasing since the 1970s, while federal revenues have stagnated over the same period (Hager 2016). Tax stagnation has been accompanied by declining progressivity in the federal tax system. Although wealthy households and large corporations now pay the bulk of federal taxes they are paying less taxes as a percentage of their total income. In the U.S., a growing public debt is primarily the outcome of declining tax progressivity (Hacker and Pierson 2010). And growing concentration in domestic ownership of the U.S. public debt points to the central role that the debt state plays in reinforcing social inequality.

One way to reverse inequalities at the heart of the U.S. debt state would be to implement more progressive forms of taxation. As part of a double-edged strategy to tackle inequality and reduce the public debt, progressive taxation has been advocated by Vermont Senator and Presidential-hopeful Bernie Sanders, as well as the Economic Policy Institute, Roosevelt Institute and the Flip the Debt campaign, an anti-austerity splinter group of the Occupy movement (Bradner 2015; Fieldhouse 2011; Roosevelt Institute 2011). Flip the Debt's boisterous slogan – "Hey 1%! Pay your damn taxes!" – places responsibility for public debt reduction on the shoulders of wealthy households and large corporations that have saved an estimated \$2.3 trillion through tax loopholes, offshore tax havens and tax cuts (Kilkenny 2013).¹¹

With foreign willingness to underwrite the U.S. public debt, seemingly *ad infinitum*, the federal government feels less pressure to bow to these demands. The low cost of borrowing facilitated by foreign capital legitimates escalating levels of public debt and lessens the immediacy of political calls to increase taxes on wealthy households and large corporations. In this way, cheap finance from abroad serves to sustain the status quo of the debt state, which works in favor of the top one percent.

Household Credit: Dampening Resentment

There is another less obvious but important channel through which foreign owners of the public debt reinforce the power of their domestic counterparts. As the work of Warnock and Warnock suggests, foreign purchases of U.S. Treasury securities have clear knock-on effects, lowering the costs of borrowing not only for government but also households and corporations. By facilitating access to cheap household credit, foreign ownership of the public debt also helps to relieve social tensions that emerge from decades-long wealth and income stagnation for the vast majority of Americans.

Discussions of inequality tend to focus on the top percentile's increasing share of the total wealth and income since the early 1980s. Yet top earners have not only come to take a greater share of the overall pie, they have also seen the absolute levels of their fortunes expand. Meanwhile, the wealth and income of those below the top percentile have stagnated over the same period.

The recent work of Emmanuel Saez and Gabriel Zucman (2014) reveals great disparities in wealth and income growth since the early 1980s. According to their research, low and middle-income Americans in the bottom 90 percent of distribution have seen their "real" wealth and income increase 0.1 percent and 0.7 percent respectively from the mid-1980s to

2012. In contrast, the “real” wealth and income of the top percentile grew 3.9 percent and 3.4 percent respectively over the same period. With stagnant wealth and income, those in the bottom 90 percent have virtually zero savings, while those in the top one percent have managed to save 36 percent of their income.

With stagnant wealth, income and deteriorating savings, households in the bottom 90 percent face the specter of declining living standards and, for those not already at the very bottom, declining positions within the class hierarchy. Engelbert Stockhammer (2015) documents how low and middle-income Americans, in an effort to stave off these nasty consequences, have rapidly accumulated debt. Debt-to-income ratios for households in the bottom fifty percent have increased from 0.61 in 1989 to 1.37 in 2007, and from 0.81 to 1.48 for households in the fiftieth to ninetieth percentile. Meanwhile the debt-to-income ratio for the top percentile has increased much more modestly from 0.25 to 0.37 over the same period.¹²

Thus one of the main consequences of rising inequality has been a concomitant explosion in household indebtedness. In his renowned book *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, Raghuram Rajan (2010) was one of the first to systematically examine the link between inequality and household indebtedness, and most importantly, to situate it within a global context.

Rajan argues that expanding household credit is the path of least resistance for the U.S. federal government in dealing with rising inequality. Faced with wealth and income stagnation, and a dwindling share of the distributional pie, access to cheap credit placates low and middle income Americans. This placating role is especially important considering that a great deal of household borrowing goes toward home ownership, a key facet of the American dream (Schwartz 2009). On the flipside, elites in the top percentile favour the expansion of household credit, seeing it as a more palatable solution to inequality than redistribution through progressive taxation.

Yet, as Rajan is careful to point out, there are domestic limits on credit expansion as a means of addressing inequality. Efforts to boost consumption via credit expansion fan the flames of inflation and put pressure on the Federal Reserve to raise interest rates, a move that would, in turn, curb household borrowing and consumption. Rajan identifies two global factors that help the U.S. to supersede these domestic limits. First, the flood of cheap imports, mostly from China, relieves inflationary pressures. Second, the flood of cheap capital from export-led countries into the U.S. Treasuries market puts downward pressure on U.S. interest rates.

Household debt serves a compensatory mechanism in the face of wealth and income stagnation for low and middle-income households. The constant flood of foreign money into the U.S., in facilitating widespread access to credit, helps to dampen resentment toward the top percentile that not only takes a bigger share of the distributional pie, but has also seen its wealth and income grow in absolute terms since the early 1980s.

Conclusion: The “Status Quo Crisis”

In this article, I presented new evidence to explain the resiliency of the U.S. Treasuries market as a global safe haven. Alongside the commonly recognized systemic factors (i.e. the

shortage of other safe haven assets), I argued that the existence of powerful domestic owners of the public debt bolsters confidence in U.S. Treasuries. The innovative work of Eswar Prasad categorizes domestic owners of the public debt based on their age, and argues that these owners have significant power in U.S. electoral politics. But the quantitative and qualitative data in this paper indicate that the power of domestic owners of the public debt instead derives from their class position at the top of the wealth and income hierarchy. In particular the research shows that, relative to households aged sixty and older, the top percentile of households have an ownership stake in the public debt that is much more concentrated, have political preferences that are much more cohesive, and exercise political agency that is much more effective.

The results of this research do not alter Prasad's main conclusion. Whether we focus on age or class, we still end up concluding that the interests of domestic owners of the public debt are closely aligned with their foreign counterparts. But the alternative focus on class does draw our attention to other "bonds" between the two categories of owners that are neglected with Prasad's analysis. Focusing on class, it becomes apparent that foreigners not only gain from the existence of powerful domestic owners, but powerful domestic owners gain from the seemingly insatiable foreign appetite for U.S. Treasuries. The powerful "bond" of interests between foreign and domestic owners of the public debt also works to sustain the dominant position of the U.S. within global finance. And, in supplying cheap credit to the U.S. federal government and to U.S. households, foreign ownership of the public debt works to sustain the dominant position of the top percentile at the top of the wealth and income hierarchy.

At least in the short-term, which matters most to politics and policy (Frieden 1991: 426), the safe haven status of the U.S. Treasuries market looks set to endure. In this way, the conclusions reached in this article correspond with Eric Helleiner's (2014) view that what we have witnessed has been a "status quo crisis", one that has done little to alter global financial governance.

Projecting the resilience of the global monetary order into the future is decidedly more difficult. In the long-term, the U.S. status as *the* world's primary safe haven may indeed be challenged. China's apparent willingness to take on a more prominent leadership role points toward a potential long-term shift in the distribution of global monetary power. The recent inclusion of the renminbi as part of the IMF's SDR basket might be a crucial turning point in this regard. What is clear is that any attempt to assess the long-term resilience of the U.S. Treasuries market as a global safe haven will require a closer examination of the creditor side of the debtor/creditor relationship, something that falls out of the scope of the analysis here.¹³

In any case, the main point to take away from the analysis in this paper is that any attempt to explain the resilience of the U.S. as a safe haven, and to project its short-term and long-term sustainability, must taken into account the complex interactions between the global and the domestic.

Notes

¹ U.S. Treasury securities are financial instruments issued by the U.S. Treasury. Outstanding Treasury securities, commonly referred to as the U.S. public debt, represent the indebtedness of the U.S. federal government. Throughout this article I use the terms U.S. public debt, U.S. Treasury securities and U.S. Treasuries market interchangeably.

² From 2008 to 2015, the interest rate on 10-year Treasury bonds has averaged 2.6 percent, less than half of the average rate since 1980 (6.2 percent) and considerably lower than the average rate since 1790 (4.8 percent). The 1940s mark the only sustained period when average borrowing rates were lower (two percent). Data are from Global Financial Data (series code: IGUSA10D).

³ Generally speaking, the current account balance reflects the sum of U.S. earnings abroad minus U.S. spending abroad.

⁴ In 2014, official investors owned 69 percent of the foreign share of the U.S. public debt, up from 52 percent in 1998. That same year, China was the largest investor, owning 21 percent of the foreign share of the U.S. public debt, followed closely by Japan at 20 percent. Data on official versus private ownership are from the Federal Reserve Flow of Funds accounts (table L.106). Data on the breakdown of foreign ownership by nationality were obtained from the Treasury International Capital (TIC) System in private correspondence. For a more detailed discussion of the data on foreign ownership of the U.S. public debt and its limitations, see Hager (2016).

⁵ Private demand for Treasury securities has been spurred by crisis-era regulatory changes, including the Basel III accord, which require banks to hold more safe assets on their balance sheets (Prasad 2014: 80; see also Arslanalp and Tsuda 2014). For a critical assessment of the continued designation of government debt as “risk free” in banking regulation, see Tett (2009, 2011b).

⁶ This is when the public debt is measured on a gross basis (i.e. including the portion of its own debt that the federal government holds in intra-governmental accounts). Elsewhere in this paper, sectoral holdings of the public debt refer to their holdings of net public debt or “debt held by the public” (i.e. gross debt less intra-government debt). The intricacies of public debt accounting are addressed in Hager (2016).

⁷ At the end of 2013, foreigners owned only 2.4 percent of Chinese government bonds. Yet as Spencer Lake (2015: 3) notes, recent efforts have been made to increase foreign ownership by opening access to China’s interbank bond market. This liberalization effort is one part of a broader strategy by the Chinese government to internationalize the renminbi and to make the currency, together with the USD, the Euro, the Yen and the Pound, the fifth in a basket of “elite” currencies to value Special Drawing Rights (SDRs). In what is seen by some, including Prasad, as a watershed moment, the IMF announced the inclusion of the renminbi in its SDR basket in November of 2015 (Kynge 2015).

⁸ Already in the 1970s, Michael Hudson (2002) recognized this dynamic whereby exporters are forced to recycle their surplus dollars back into the U.S. Treasuries market in order to maintain the competitiveness of their own currencies. Even the Pentagon argues that a massive sell-off of U.S. Treasuries would do more harm to strategic rivals such as China than to the U.S. (Minnick 2012: 44).

⁹ Prasad (2014: 110) also lists state and local governments (SLGs) as well as insurance companies as significant owners of the U.S. public debt. These entities exercise lobbying power, which bolsters the voting power of retirees and near-retirees. The singling out of

SLGs and insurance companies seems curious, however, when we note that they own only four and two percent of the public debt, respectively. Data are from the Federal Reserve Flow of Funds accounts (table L.210).

¹⁰ Page, Bartels and Seawright (2013: 55) also discovered that the top percentile is very much concerned with budget deficits. In fact, around one-third of respondents to their survey deemed budget deficits the most important issue facing the country, significantly more than any other issue. In a poll conducted by CBS, only seven percent of the general public mentioned budget deficits or the public debt as the most important issue. Yet the survey research of Page, Bartels and Seawright (*ibid.*: 60) also reveals considerable nuance in the top percentile's view of budget deficits and two additional points should be made. First, the survey shows that the top percentile strongly favours spending cuts to tax hikes as the way of bringing down deficits. Second, the top percentile is twice as likely than members of the general public to *support* deficit spending in the context of recession and war.

¹¹ The position of Flip the Debt assumes that, sooner or later, either through spending cuts or tax hikes, the public debt *must* be reduced from current levels. Yet as proponents of Modern Monetary Theory (MMT) explain, a monetarily sovereign entity such as the U.S. federal government (i.e. an entity that issues debt in a currency it fully controls), is never revenue constrained like a household or corporation and can never technically go bankrupt (Wray 2012). This simple observation indicates that there are no inherent limits on government borrowing. The refusal to recognize the implications of monetary sovereignty points to the unquestioned sanctity and pervasiveness of creditworthiness and “sound finance” within contemporary society.

¹² Edward Wolff's research shows that the onset of the crisis has done little to alter the distribution of household indebtedness. In his analysis of the 2013 SCF, Wolff calculates a debt-to-income ratio of 0.38 for the top percentile and 1.25 for the middle three quintiles (households in the twentieth to eightieth percentile of distribution).

¹³ Vermeiren (2013) provides a rigorous account of how China's domestic political economy shapes and constrains its role within the global monetary system.

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