by ensuring taxpayers that they are going to get fair treatment by the tax collector, the Internal Revenue Service.

Mr. President, in closing, I would like to this morning pay a very, very special tribute to a fine gentleman who has worked for years to make certain that the taxpayers' bill of rights No. 2 became the law of this land. This fine gentleman is Steve Glaze. He is a member of my staff. He sits to my left at this moment on the floor, and I can say without reservation that without Steve Glaze's constant help and support, his inspiration many times when we thought the taxpayers' bill of rights 2 would never see the light of day and never become law, Steve Glaze was always that optimistic individual, knowledgeable, inspired and committed to making certain that the American taxpayer got a fairer break.

So, Mr. President, I thank my very worthy staff member, Steve Glaze, for his magnificent contribution to this bipartisan piece of legislation.

I thank the Chair, and I yield the floor.

The PRESIDING OFFICER. Who seeks recognition?

Mr. DOMENICI addressed the Chair.

The PRESIDING OFFICER. The Senator from New Mexico is recognized.

Mr. DOMENICI. Mr. President, I understand morning business will be completed at 11 o'clock. I will attempt to keep my time to that. If you will advise me when the time is up, I would appreciate it.

The PRESIDING OFFICER. The Senator is correct. Morning business does expire at 11 o'clock. The Chair will advise the Senator.

Mr. DOMENICI. I had contacted Senator THURMOND about the last 5 minutes, and he is not coming, so that is why I am using his time.

FOREIGN OWNERSHIP OF U.S. TREASURIES

Mr. DOMENICI. Mr. President, while much attention has been given to the trajectory of our budget deficit in recent months, very little has been said about how we are financing this deficit. I think this latter point is crucial because there are some very troubling trends in the ownership of U.S. Treasuries which could spell trouble down the road.

Foreign ownership of U.S. Treasuries has surged in the last 3½ years. As a percent of the total private holdings, this ratio soared from 19 percent in 1992 to 25 percent by 1995. To put this in perspective, foreign treasuries and their holdings held within a fairly stable, and narrow range of 15 to 20 percent during the 12 years previous to 1992.

Some may argue that this recent rise is not worrisome. Indeed, we should be grateful, some would say, for foreign participation. However, this ignores two very key facts.

One, this money must be paid back with interest at a future date, and interest payments abroad are an unambiguous loss to American incomes. This is not the case with interest paid to domestic residents and domestic institutions. As such, continued purchases of Treasuries amount to mortgaging away our future standard of living a little bit at a time.

The second reason is that it is usually a bad sign to see a country find itself predominantly with foreign central bank money, because when they buy our Treasuries, they lend us their money. So it is usually a bad sign to see a country find that a foreign central bank is a predominant lender of money to us.

This usually bespeaks a lack of sufficient private investment and is a warning of unsustainable fiscal policies. Witness Mexico in 1995. That is why I view the first quarter's current data with such alarm. It showed that foreign central banks bought $55 billion in U.S. Treasuries from January to March of this year alone—$55 billion. That is nearly double the amount that central banks bought in all of 1994 and is over 80 percent of 1995's yearly total.

Let me put it another way. First quarter foreign official bond purchases amounted to 6.5 percent of the entire stock of foreign treasury holdings which had been built up over time. This goes a long way toward explaining why the treasury market was so resilient initially to the collapse of the balanced budget talks that we were having with the administration at the start of this year.

Why were central banks buying so many of our Treasury bills, so many of our IOU's? While some may have viewed United States debt as a good investment, the main player was the Bank of Japan. It was not buying our Treasury bills because it wanted to, but only did so to prop up the dollar and keep the yen weak as a way of aiding its ailing exporters and its banking sector.

The Bank of Japan has been forced into such defensive dollar buying ever since the Clinton administration forcibly devalued the dollar in 1993. Since 1993, the Bank of Japan's reserves have tripled from $69 billion, Mr. President, to $208 billion, underpinning our bond market with those huge quantities of purchases.

Since these reserves are held in dollars, this translates into a similar amount of treasury purchases. At present, these Japanese treasury purchases are very stable. The Bank of Japan cannot sell them without precipitating a fall in the dollar versus yen. However, once its banking sector reserves and its exporters adjust to the current yen level, there will be less need for the Bank of Japan to be buying Treasuries. Since the U.S. bond market has been accustomed to their steady purchases, this will come as a blow to the Treasury market of the United States. Indeed, we have already seen a mild example of what might happen when foreign central banks scale back their dollar purchases.

In April through June of 1996, official Treasury purchases were only one-tenth as large as in the first quarter. It was no accident that bonds fell sharply during this period, with the 30-year yield soaring from 6.6 to 7.2 percent.

The recent example stresses the importance of reducing the amount of U.S. debt issuance now. Only in this way will we be able to prevent a sharp future bond market selloff if foreign central banks scale back their enormous appetite for our securities, which appetite is not singularly predicated upon their confidence in us but, rather, in this case, the Japanese purchases are in their own self-interest for the time being, for they are attempting to effect the value of the yen versus the dollar their way.

When that all gets stabilized, who will fill the gap as they begin to dispose of these inordinate holdings of American Treasuries?

Mr. President, I yield the floor and thank the Senate for the time.

The PRESIDING OFFICER. Who seeks recognition?

Mr. DOMENICI. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. STEVENS. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. GRAMS). Without objection, it is so ordered. The Senator from Alaska.

Mr. STEVENS. What is the pending business now?

DEPARTMENT OF DEFENSE APPROPRIATIONS FOR FISCAL YEAR 1997

The PRESIDING OFFICER. The clerk will report the bill.

The bill clerk read as follows:

A bill (S. 1894) making appropriations for the Department of Defense for the fiscal year ending September 30, 1997, and for other purposes.

The Senate resumed consideration of the bill.

Pending:

Stevens amendment No. 4439, to realign funds from Army and Defense Wide Operation and Maintenance accounts to the Overseas Contingency Operations Transfer Fund.

Mr. STEVENS addressed the Chair.

The PRESIDING OFFICER. The Senator from Alaska.

Mr. STEVENS. Mr. President, my understanding as to the vote on the cloture motion that was filed last week, it has been temporarily set aside and could be called back by the leadership after notice to the minority; is that correct?

The PRESIDING OFFICER. The Senator is correct.

Mr. STEVENS. The Senator from Hawaii and I are now at liberty to proceed with the bill; is that correct?

The PRESIDING OFFICER. That is correct.