



## Will Japan Crisis Hike Interest Rates?

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Japan is the second largest foreign holder of US debt after China. In the aftermath of the recent earthquake it is expected that Japan will likely stop purchasing US debt and instead focus on its own recovery. Some even think that Japan will sell off some of the debt that it owns which in turn could affect interest rates. Some are worried that this will make interest rates higher, Senator Rand Paul [suggested](#) this could be possible to the *Washington Times*:

“This natural disaster in [Japan](#) concerns me that it could speed up what’s coming, because they are the second leading buyer of our debt,” [Sen. Rand Paul](#), Kentucky Republican, told The Washington Times. “Small degrees of differences in how much they buy of our debt, I think, can make a big difference in interest rates that we have to pay people to buy our debt.”

Yet according to Dr. Robert J. Shapiro of Sonecon, if Japan stopped buying debt or started to sell the debt it owns, other countries might step up to purchase it instead.

Certainly, if the Japanese were to sell off their debt, this likely would cause interest rates to go up. As Shapiro himself [wrote](#):

And if the crisis worsens, Japan may become a major seller of U.S. government securities. This will put considerable pressure on U.S. interest rates, potentially increasing our own deficit (through higher interest costs), and almost certainly slowing our economy.

In an interview with FrumForum, Shapiro did lay out some scenarios that could prevent interest rates from rising. He suggested that other countries might fill the void. He cited the instability in the Middle East as a factor which might the US a more appealing investment:

“We’re less dependent on Japanese debt than we were two years, certainly five years ago. If Japanese government purchases decline, but if the purchases by wealthy Japanese individuals, or purchases by Middle Eastern and wealthy individuals go up because of the turmoil in the Middle East, that could off-set the falling demand or even sales by Japan.”

The fact that the earthquake in Japan might affect US interest rates is [another example](#) of how this earthquake could create longer-term economic consequences.

Topics: [debt](#), [earthquake](#), [economy](#), [Japan](#)

