



Need A Free Cool Trillion? Ask China!

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Concern is rising that should the US default and not pay its creditors in a timely manner, China will refuse to purchase US bonds in the future. This it is feared, will require the US to dramatically increase the interest rates offered to attract future US bond buyers, and toss the US economy back into the proverbial ditch.

It is certainly hoped the debt ceiling and future significant debt reductions will be agreed to soon in a way that is a genuine step forward, and not simply more business as well. But there is an avenue available for the United States to reduce its debt obligations by nearly \$1 trillion.

China--the communist one-- owes the US \$750 billion in interest and principal on bonds sold to American citizens for the first 50 years of the past century. These bonds are totally legitimate and many were to be paid back at a price pegged to the price of gold, with most coming due between 1959 and 1970.

In 1987, in the deal giving Hong Kong back to the PRC, British Prime Minister Margaret Thatcher demanded that Peking pay the principal and interest due on these same bonds. China accepted responsibility for making good on these bonds, under the successor government doctrine.

In 2003 at the United Nations, the Chinese demanded that Iraq be required to pay back its international obligations, despite the elimination of the government of Saddam Hussein.

The Chinese government sent the US government a note to its embassy in Peking a few years ago, officially refusing to honor their sovereign debt, thus defaulting on these obligations.

Previously, under the doctrine of sovereign immunity, the government in Peking was simply protected from lawsuits by American citizens to recover their rightful interest and principal.

Now, these bonds are not "warlord" bonds. They are real; they were sold by the Republic of China over many years to support infrastructure projects, and brokered and sold by the world's most important banks. The US has the right simply to withhold from Peking the interest owed China as an offset to the \$750 billion owed American citizens. If we do this, we save nearly \$1 trillion owed China and nearly \$1 trillion gets invested in the US economy.

An organization formed many years ago for the express purpose of representing American bond holders is proposing that such funds as are owed to these Americans be transferred to the American Bondholders Foundation, and then disbursed to the holders of the bonds, with separate funds going to each state and a host of charitable organizations. Each state, from Maine to Florida, Alaska to California, Texas to Minnesota, would get a one-time payment of \$2 billion.

A further benefit is that over a period of years, the US would be able to significantly reduce its debt obligations and as a result, bring its books into better balance, and deflect, for the moment at least, misguided calls for massive cuts in the US defense budget.

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