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WND EXCLUSIVE

YOU WON'T BELIEVE WHO OWES U.S. BILLIONS

Government bonds remain unpaid years after due dates have passed

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by BOB UNRUH [Email](#) | [Archive](#)

Bob Unruh joined WND in 2006 after nearly three decades with the Associated Press, as well as several Upper Midwest newspapers, where he covered everything from legislative battles and sports to tornadoes and homicidal survivalists. He is also a photographer whose scenic work has been used commercially.



How would it be if the next few hundred billion dollars or so in U.S. bills could be paid off in cash? No borrowing. No additional debt.

Just as Barack Obama is planning to borrow another pile of currency, probably from China, to pay for his programs and promotions, calls are starting to develop for the U.S. to call in the debts that are due – and have been due for roughly two generations.

Those would be the sovereign debt bonds sold by China before the communist revolution – bonds that were issued with the promise by the Chinese that they would be an internationally recognized debt of China and its successor governments until paid.

But so far? Nothing.

[The issue got the attention of Peter Huessy](#), the president of GeoStrategic Analysis, a defense forecasting firm, in a commentary at Fox News not long back.

“Many people assume China has the U.S. over a barrel. The country buys so much of our debt – around \$800 billion – that we cannot ‘rock the boat’ when it comes to U.S. and China relations. That has meant not pressing the PRC ‘too hard’ when it comes to North Korea, or Iran,” he wrote. “Just recently, a top Obama administration delegation visited the People’s Republic of China. While there, the Chinese were told not to worry about the U.S. paying its debts to the country – their investments in the U.S. were safe. True enough.”

But he added, “I was struck with the fact that the PRC, however, does not pay its debts to the U.S.”

WND reported when Obama’s first “stimulus” package of some \$700 billion-plus was being pushed through Congress that some of the beneficiaries would be Chinese companies – even while the billions of unpaid debt remained outstanding.

At that time, [Kevin O’Brien, writing for the Global Association of Risk Professionals](#), warned that the situation could develop into a significant problem.

“One of the greatest problems facing China is the government’s failure to acknowledge and effectively address the true extent of state institutions’ bad debt,” he wrote.

“The repayment obligation was inherited by the People’s Republic of China, when the communists took control in 1949. The successor government doctrine of settled international law affirms continuity of obligations among international recognized successive governments,” O’Brien wrote.

Huessy explained what happened.

“Many decades ago, China sold sovereign bonds worldwide to investors in many nations. They sold tens of thousands of these bonds on U.S. soil to American citizens on the recommendation of our government, indicating it was a solid investment,” he said. “Over the last sixty years, China has refused to pay to these bondholders either the principal or interest on these full faith and credit sovereign bonds.”

He noted that in 1987 the British financial markets threatened to keep China out because of the unpaid bonds due to owners in that nation, so the Chinese reached agreement to pay up. But only to those bondholders.

That’s what is known as a “selective default,” meaning some debts were paid but others were not, Huessy said.

He noted that U.S. credit rating agencies such as Standard and Poor’s claim they simply can overlook that.

“Under the rules, they are granted a license by the Security and Exchange Commission (SEC) of the United States to be a nationally recognized statistical rating organization (NRSRO), a charter to assess the risk of investing in sovereign and corporate debt, stocks, or bonds. The ‘selective default’ of the PRC must be acknowledged, in that the metrics used by the NRSRO organizations that they themselves have promised to follow as part of their license agreement includes just such a requirement,” he warned.

“Now if China was found in selective default, this would cause the PRC to have to pay considerably more to finance its debt than it does now. Billions more,” he said.

He noted that China insisted, when Saddam Hussein’s government in Iraq collapsed several years ago, that any successor government in Iraq must be held to the existing debts, and the U.N. agreed to its demands.

“Currently, the People’s Republic of China owes a debt of over \$750 billion to American citizens who are holding these full faith and credit sovereign bonds (many of them denominated in gold) sold to them by the Republic of China. Worldwide, the debt China owes to all bondholders is estimated to be several trillion dollars. The debt owed to the American people should be paid. The U.S. government could dollar for dollar offset bond interest we owe China with interest, principal and penalties China owes us,” Huessy said.

It wasn’t too far off the date when China demanded Iraq be held to account that the Chinese Ministry of Finance in 2006 issued an official communiqué addressed to “the Embassy of the United States of America in China,” in which the Chinese government formally repudiated China’s defaulted full faith and credit sovereign debt and announced that it would not repay any debt held by America, O’Brien explained.

China, meanwhile, continues to boast of its economic growth and influence, moves that periodically prompt outraged members of Congress to try to bring the issue to a head. A few years back it was Sen. James Inhofe, R-Okla., tried to advance a resolution noting China's attempt "to conceal its defaulted government debt from investors."

Huessy indicated that the White House should be jumping on the issue.

"That could even be part of the upcoming budget and debt agreement, paid down over a period of years," he noted.

Meanwhile, under last year's debt increase law, Obama can raise the nation's debt cap, now \$15.2 trillion, after he notifies Congress of the need unless his plan is opposed by a two-third supermajority, an unlikely event.

Fox News reports that almost \$1 trillion of the new debt for the U.S. "can be attributed to Obama's 2009 deficit-financed economic stimulus package," of which some of the benefits went to Chinese-owned companies.

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