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China: Don't Buy Government Bonds! **by Sheldon Richman**

An urgent message to the people of China: Don't lend the U.S. government another dime. If you do, you will be hurting not only yourselves but also the American people. Invest in real productive ventures here or elsewhere. But — please — don't buy any more government debt.

That may sound unpatriotic, but I can't think of anything that would better serve the long-term interests of honest Americans and therefore the country itself. The national government, regardless of which party was in power, has been binging for ages. The national debt is more than \$10 trillion (not counting trillions in unfunded commitments such as Social Security and Medicare). The budget deficit will be much more than \$1 trillion a year for years. Spending is up to \$3 trillion a year and growing. Something's gotta give.

Dear Chinese people, what have you been thinking? Do you expect to be paid back? Author Peter Schiff recently asked an audience to imagine a U.S. president saying to the American people that it is now time to raise taxes and cut spending because ... we have to pay the Chinese back. Not going to happen.

The government has no intention of really paying you back anyway. It may appear to do so, but only after borrowing the money to do it. It's the Bernie Madoff method. (I agree with Schiff: Barack Obama should have made Madoff secretary of the Treasury; Obama's budget will require his talents.)

So we'll borrow from you, Chinese friends, to pay you back. Are you going to let American politicians scam you like that?

More important, the government will renege. Not outright by explicitly repudiating the debt — though that is not out of the question sometime in the future. No, it will do it subtly through inflation. The "independent" Federal Reserve will monetize the debt by buying Treasuries in the open market with money created out of thin air. It just announced it was stepping up its purchases. This, among other serious consequences, will depreciate the U.S. currency. Payment of debts will be with cheaper dollars. Don't fall for this scam, dear people of China.

In protecting yourself, you'll be doing your American friends a favor, too. The Fed has been creating trillions of dollars in funny money. The money is bottled up in the banks because anxiety has dampened the desire to lend and to borrow. Ironically, as confidence begins to return, that money will pour into the economy and inflation will hit full force: distorted relative prices, misdirected investment, income distribution, calculational chaos, and generally rising prices. Oh, sure, the Fed says it will withdraw the funny money at just the right moment, preventing the inflationary effects. If you believe those bureaucrats can know enough to do that, I have some gold in Fort Knox to sell you.

Once inflation's effects are raging, politicians will vilify greedy businessmen for gouging the public. Demagogues will score points with voters by calling for price controls. If they get them, things will really get ugly, as we know from the 1970s, when Nixon imposed wage and price controls. Controls designed to hold prices below the market-clearing level will bring chronic shortages of products. Remember the gasoline lines and alternate-day buying in the 1970s? We could see that at supermarkets. If we get to that point, our misrepresentatives and public self-servants could well propose rationing so that everyone gets his "fair share" of the shrinking supply of goods. Hello, World War II ration books.

Would the potential for civil unrest be far behind? I'm not so sure.

So, dear Chinese friends, please, do us all a favor. Do not lend the U.S. government money. Don't buy bonds, T-bills, or Treasury notes. Force this government to live within its means. If politicians want to spend more than they are already raising in taxes, make them go before the American people and ask for higher taxes. Give us a fighting chance.

Public debt is dishonest because it makes government look less expensive than it really is. And it cheats you, the creditors.

End this dishonesty. End the economic turmoil. Don't buy U.S. bonds!

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