China's Debt-for-Nature Opportunity for Virtually Bankrupt U.S.

Contributed by Jan Lundberg 26 July 2011

The U.S. is faltering economically, seeing the chickens come home to roost financially since erasing the budget surpluses of the Clinton Era. It's not just a coincidence that in the 1990s the U.S. "enjoyed" low oil prices and engaged in much less war spending. With the U.S. deficit crisis there needs to be a win-win solution if possible with this nation's huge creditor, China the world powerhouse. The debt-ceiling impasse in Washington cannot actually be solved with smoke and mirrors, contrary to Inside-the-Beltway delusions -- certainly not long-term.

So what does China have to say, when it owns nearly \$900 billion in U.S. debt?

As of May 2011 the largest single holder of U.S. government debt was China, with 26 percent of all foreign-held U.S. Treasury securities. In 2000 China held just 6 percent of all such securities. China sees the politicized U.S. debt crisis as something childish and foolish, and something the U.S. ought to be embarrassed about. So a creative approach that heavily involves the Chinese could have appeal on their side of the Pacific, unleashing a greenhouse-age generosity coupled with concern for the ailing Earth -- and cash for Washington that is overdue for a more rational game plan.

Poor, poor Washington, it can spend trillions on unproductive war, but it can't make the mega-corporations or super rich pay their fair share of taxes. So other solutions -- or debacle -- must come. As Rahm Emmanuel said, "Don't let a crisis go to waste."

Maybe there is an alternative to infinite debt ceilings, default, unending war, damaging the climate, and clinging to endless growth. One answer might have surprising potential to help the whole world, including China and the U.S. It would take immediate pressure off the frantic U.S. financial house of cards, and restructure the sick U.S. economy via a less wasteful, more sustainable exchange. That exchange has been around for a while. It is known as debt for nature. This would be better for the U.S. than if China dumps its U.S. debt.

Some stumbling blocks: (1) The U.S. government supposedly must raise its \$14.3-trillion debt ceiling by August 2nd. (2) On that date the federal government both runs out of money and loses the authority to borrow more money. (3) Both China and the U.S. are wedded to growth, or believe themselves to be, in the face of dwindling cheap oil that enabled most of the growth and still fuels world trade at higher and higher cost.

But despite the debt ceiling's being several times higher than China's share of U.S. debt, a U.S. default could be averted simply by China's stepping in to make sure the U.S. is not short of funds to meet all of its debt payment obligations. Or if default must be allowed, this could help restructure a new spending reality that China could support. But before China would be left holding the bag, and the U.S. has to endure a shutdown, it would behoove all parties to come to a debt-fornature arrangement if only for financial relief. And if worse comes to worse for the U.S. when the spending bubble must burst, China could still go a long way then toward picking up the pieces by forgiving debt in exchange for protecting nature. The corporate media don't breathe a word of it, but subsistence practices for sustainable stewardship of nature is good economics. It may be hard to imagine such a future at the hands of the powers that be, but why not explore it now in case developments get really "interesting" and fluid?

China no doubt wants to benefit somehow if she were to forgive hundreds of billions of dollars of debt owed by the U.S. Consider that China needs to be a global citizen with respect to greenhouse gas reductions, having surpassed the U.S. as top global emitter. So how can China collect from a virtually bankrupt debtor? Debt-for-nature. China could continue to pursue growth, writing off its partner the U.S. but with benefits and advantages. The U.S., instead of locking up its forests for the sake of the global atmosphere as Brazil can offer, can protect nature to its fiscal advantage by pursuing prudent policies such as converting much car dependence to bicycle use and converting truck transport to a combination of sail/bike/local food production. This could help avert a petroleum-dependence induced famine in the U.S., lessening any future strain on China if its humanitarian limits were overstretched. Growth economics would have to be abandoned, but what if there's no choice due to the terminal effects of the U.S.'s spendthrift, oil guzzling ways?

Perhaps the biggest, easiest and cheapest "sacrifice" for the U.S. in a debt-for-nature swap is to stop its wars -- seen by most of the world as illegal wars of aggression. Also, since nuclear power plants are really part of the weapons complex and are anti-nature, their closure in the U.S. could earn even more points with the reasonable Chinese. After all, the dozens of Fukushima-style General Electric nuke stations in the hapless U.S. are not something the Chinese want to see fail and poison the world.

The overall carbon footprint of the U.S. military and its global, toxic complex -- which happens to use mostly BP oil for the Afghanistan campaign -- must be on the discussion table to give the planet a break. By ceasing much of its pollution in an international agreement with China, the U.S. opens the way for China to earn massive greenhouse gas emission reduction credit. Meanwhile the U.S. would be on the way to regaining its top spot in world environmental protection (since four decades ago).

By ending most of its crazy military spending, the U.S. could afford a social safety-net and stimulate local-based economic well being. But the national debt in trillions of dollars would not yet be wiped out in the U.S.; the U.S. would not yet be solvent. Fortunately, the U.S. can also move toward a one-child-per-couple incentive. Stopping short of a policy or law, to show the alleged superiority of the compassionate American heart, incentives could be structured to both cut per capita emissions and, gradually, the number of emitters. The U.S. is the fastest growing population in the industrial world, which has terrible implications when its per capita non-renewable resource consumption is the worst in the world. It is comforting to think of China's avoided pollution since 1981, with its economic growth raging ever since, because of the one-child per couple policy in place these past three decades. The world is so strained ecologically that one could almost say the unborn are the most effective environmentalists.

Of course, China will not want to wipe out the trade deficit which it enjoys in its favor. So trade will continue, but this can happen with clean-energy sail power's attaining a growing share of transport propulsion. Sailing fleets would be phased in, as fast as possible, to start doing away with atrocious bunker fuel use: 16 of the biggest ships now pollute the air as much as all the world's cars. With a debt for nature swap, and Chinese financial resources to cover reasonable U.S. payments, China can insist on cleaner trade-transport via sail power. But surely the clever Barack Obama can secure our right to grow our own food rather than import much of it from China -- as Michelle Obama, the organic Victory Garden poster child would insist. "Balancing the budget" can include finally taking the ecological budget into account.

The free market could help take care of the thorny issue of global cargo ships' bunker fuel consumption that the U.S. generates by buying Chinese goods. Mitigating this in the U.S.'s wasteful economy means having large, modern sailing vessels start to enter the world trade center stage in the Pacific Rim. This would serve to show the E.U. that the U.S. is not a hopeless laggard; European shipping companies are soon to be represented in a tiny but meaningful way by large, high tech sailing vessels.

China can reap other benefits to structuring an ecologically rational treaty with the U.S. to forgive debt. Such as, a shipping-container spillage side-deal. A Chinese ship was fined millions of dollars for losing 10 containers that disturbed the ocean floor ecology in Monterey Bay off California, but what was the destination of the products? U.S. chain stores. The upshot of this side deal is that the U.S. accepts more responsibility for ocean health than it has in the past with helter-skelter profit seeking at all costs. China is a country with an economic plan process. This contributes to the nation's ability to ban certain plastics, for example. This is not even tried for the U.S. as a whole. The Speaker of the House's environmental staff in 2008 lamented to me that banning plastic bags was not even thinkable. But since the Speaker had to step aside anyway when the Republicans took over the House of Representatives, wouldn't it have been best to try for a national bag ban when the Democrats had a chance to at least air the matter?

If China were to somehow take national pride in helping the U.S. down the path of sustainability, recalling when the tables were turned during the decades that the U.S. profligate-oil economy ruled the roost, a bit of pride over the U.S. being "humbled" is probably going to happen. The mature crowing may not even be heard on this side of the Pacific. After all, China is the oldest continuous civilization. Perhaps she needs to avoid a fate of being formerly known for the Great Wall of China because she tried in vain to bear the Great Wal-Mart of China -- that fell down when the U.S. bubble burst.

The U.S. once took pride in thrift, saving money for the future, and putting family values ahead of all-out individual gain. Perhaps circumstances today are finally forcing us to make an about face and start heeding the peak-oil preparedness adage "Get out of debt now!" Perhaps China will be our partner on a deep, better level for all.

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A "Modest Proposal" for Ending the U.S. Debt Crisis: A Debt-Nature Swap with China, July 14, 2011, by law professor Dan Farber:

Debt-nature swaps allow countries with major debt over-hang and relatively weak economies to reduce their debt in return for undertaking environmental measures. The U.S. now seems to be in the same need of debt relief as many developing countries in past decades. In the meantime, the Chinese have a thriving economy and hold enormous amounts of U.S. debt. The Chinese leadership also seems to realize that climate change is a serious problem facing China in the future, but they're reluctant to sacrifice their own economic growth to get there. So how about a debt-nature swap? The U.S. would adopt serious climate mitigation measures, and in return, the Chinese would release a few hundred billion dollars of U.S. debt. This would get us out from under our debt ceiling problem while addressing a pressing global problem. Sounds win-win!

How China and America can work together to solve climate crisis by Jan Lundberg, December 9, 2011

China press on debt-for-nature, quoting Jan Lundberg: finance.eastmoney.com (Scroll to almost half way through story)

Citations from Culture Change:

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Jan 18, 2011 – With nearly \$900 billion in U.S. Treasury holdings (that we know of) can the U.S. afford to play hardball with China on trade and currency?
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