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Newsflash: Claiming that China is America's "banker" is misleading and racist

Constantly warning about "Chinese bond-holders" is misinformed, and arouses anti-Chinese xenophobia and paranoia

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Sarah Palin thinks you should be terrified of the amount of American debt held by Chinese bondholders. "When that note comes due – and this isn't racist, but it's going to be like slavery when that note is due," she [recently warned](#). "We are going to be beholden to a foreign master." She is wrong about both things: that's not how it works, and it totally is so, so racist.

But Ms. Palin, while startlingly tactless, is hardly the only political figure encouraging the pervasive-yet-vague idea that China owns our debt. Hillary Clinton, as good an avatar as any for mainstream American political thought, is fond of referring to China as the U.S.'s "banker," [writing](#) that "countries, including China, [owning] so much of our debt" constitutes "a great source of vulnerability." Even in this more polite form, divorced from Palin's paranoid frenzy, advancing the "Chinese bond holder" trope is misleading and economically meaningless, and therefore reliably results only in arousing anti-Chinese xenophobia and paranoia.

Just to get one thing out of the way, though it is irrelevant, China owns a little under 8 percent of American sovereign debt. If that seems like a small amount to you, then you are very perceptive. In fact, most of the U.S. government's debt is owned by ... the U.S. government itself, as this [handy graph](#) makes clear. The Social Security trust fund alone has twice as much invested in Treasuries as China does. In the market for U.S. Treasury securities, China is by no means the dominant player.

But more to the point, it does not matter who owns the public debt, because its repayment places absolutely no budgetary burden on anyone. It might take a minute or two out of the day of some operations person at the Fed, but that's all. That person might bring up the spreadsheet of a Chinese bank's savings account at the Fed (its "Treasury securities" account) and deduct a certain amount, by a keystroke, thereupon to bring up that same bank's checking ("reserve") account spreadsheet and add that same amount, by a second keystroke. The debt is thereby paid. Ta-da!

No one sees a tax increase. No one's stuff is dispossessed by Chinese soldiers. No Shanghai Shylock turns up demanding pounds of American flesh. There definitely isn't slavery. As a matter of fact, no one except people working in finance is ever aware that it is happening.

It's intuitive but wrong to picture the public debt as private debt we're all on the hook for. In reality, public debt isn't really properly thought of as borrowing at all, according to Frank N. Newman, former deputy secretary of the U.S. Treasury under President Clinton. Since the U.S. doesn't need to borrow back the dollars it originally spent into existence in order to spend them again, the purpose of issuing Treasuries is really just for "providing an opportunity for investors to move funds from risky banks to safe and liquid treasuries," [he writes](#). Investors aren't doing the U.S. a favor by buying treasury securities; the U.S. is doing investors a favor by selling them. Otherwise, without the option "to place their funds in the safest most liquid form of instrument there is for U.S. dollars," would-be bondholders "are stuck keeping some of their funds in banks, with bank risk."

The reason China owns all those safe securities is that because the U.S. purchases all those Chinese-made commodities for U.S. dollars. China converts the dollars into the dollars' interest-bearing siblings, bonds, and park them at the Fed until they mature – that is, when the spreadsheet switcheroo ceremoniously retires the debt. At this point, China usually just rolls over the debt by purchasing new securities. This keeps Chinese currency weak against the dollar, so China can have the U.S.'s export market – this is the "currency manipulation" you've heard self-righteous pontification about.

What does the U.S. get out of this arrangement? iPhones for which it exchanges digital entries in a spreadsheet at the Fed. What does China get? An extremely productive economy, for one thing. Uncomfortably, the implication is that Chinese Communists make a lot better capitalists than American capitalists.

To review, China's ownership of American debt doesn't matter to the sustainability of budget policy, and is an inevitable result of American consumer goods being produced there, which seems to suit most Americans just fine. And lest we forget, China doesn't even own 8 percent of the debt anyway! So just what is being accomplished by mentioning Chinese bond-holders? Does this trope express some concept that couldn't be more accurately described with reference to the Social Security trust fund? Ultimately, the only net result of Chinese bond-holders' rampant invocation is activating racist mistrust of "the Chinese," long a component of the American bigotry cocktail.

President Obama having [openly campaigned](#) on ramping up military tensions with China in "pivoting" his foreign policy to the Pacific, the last thing we need is a matching intensification of American mistrust of and resentment of Chinese people. So stop.