China Calls Our Bluff: The U.S. is Insolvent and Faces Bankruptcy as a Pure Debtor Nation

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America's biggest creditor – China – has called our bluff.

As the Financial Times notes, the head of China's biggest credit rating agency has said America is insolvent and that U.S. credit ratings are a joke:

The head of China's largest credit rating agency has slammed his western counterparts for causing the global financial crisis and said that as the world's largest creditor nation China should have a bigger say in how governments and their debt are rated.

"The western rating agencies are politicised and highly ideological and they do not adhere to objective standards," Guan Jianzhong, chairman of Dagong Global Credit Rating, told the Financial Times in an interview.

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He specifically criticised the practice of "rating shopping" by companies who offer their business to the agency that provides the most favourable rating.

In the aftermath of the financial crisis "rating shopping" has been one of the key complaints from western regulators , who have heavily criticised the big three agencies for handing top ratings to mortgage-linked securities that turned toxic when the US housing market collapsed in 2007.

"The financial crisis was caused because rating agencies didn't properly disclose risk and this brought the entire US financial system to the verge of collapse, causing huge damage to the US and its strategic interests," Mr Guan said.

Recently, the rating agencies have been criticised for being too slow to downgrade some of the heavily indebted peripheral eurozone economies, most notably Spain, which still holds triple A ratings from Moody's.

There is also a view among many investors that the agencies would shy away from withdrawing triple A ratings to countries such as the US and UK because of the political pressure that would bear down on them in the event of such actions.

Last week, privately-owned Dagong published its own sovereign credit ranking in what it said was a first for a non-western credit rating agency.

The results were very different from those published by Moody's, Standard & Poor's and

Fitch, with China ranking higher than the United States, Britain, Japan, France and most other major economies, reflecting Dagong's belief that China is more politically and economically stable than all of these countries.

Mr Guan said his company's methodology has been developed over the last five years and reflects a more objective assessment of a government's fiscal position, ability to govern, economic power, foreign reserves, debt burden and ability to create future wealth.

"The US is insolvent and faces bankruptcy as a pure debtor nation but the rating agencies still give it high rankings ," Mr Guan said.

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A wildly enthusiastic editorial published by Xinhua , China's official state newswire, lauded Dagong's report as a significant step toward breaking the monopoly of western rating agencies of which it said China has long been a "victim".

"Compared with the US' conquest of the world by means of force, Moody's has controlled the world through its dominance in credit ratings," the editorial said…

China is right. U.S. credit ratings have been less than worthless. And – in the real world – America should have been downgraded to junk. See this, this, this, this, this,this, this, this and this.

China is not shy about reminding the U.S. who's got the biggest pockets. As the Financial Times quotes Mr. Guan:

> "China is the biggest creditor nation in the world and with the rise and national rejuvenation of China we should have our say in how the credit risks of states are judged."

Might Makes Right Economic Collapse

Indeed, Guan is even dissing America's military prowess:

> "Actually, the huge military expenditure of the US is not created by themselves but comes from borrowed money, which is not sustainable."

As I've repeatedly shown, borrowing money to fund our huge military expenditures are – paradoxically – weakening our national security:

As I've previously pointed out, America's military-industrial complex is ruining our economy.

And U.S. military and intelligence leaders say that the economic crisis is the biggest national security threat to the United States. See this, this and this.

[I]t is ironic that America's huge military spending is what made us an empire … but our huge military is what is bankrupting us … thus destroying our status as an empire …

Indeed, as I pointed out in 2008:

So why hasn't America's credit rating been downgraded?

Well, a report by Moody's in September states:

"In superficially similar circumstances, the ratings of Japan and some Scandinavian countries were downgraded in the 1990s.

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For reasons that take their roots into the large size and wealth of the economy and, ultimately, the US military power, the US government faces very little liquidity risk — its debt remains a safe heaven. There is a large market for even a significant increase in debt issuance."

So Japan and Scandinavia have wimpy militaries, so they got downgraded, but the U.S. has lots of bombs, so we don't? In any event, American cannot remain a hyperpower if it is broke.

The fact that America spends more than the rest of the world combined on our military means that we can keep an artificially high credit rating. But ironically, all the money we're spending on our military means that we become less and less credit-worthy … and that we'll no longer be able to fund our military.

The Scary Part

I chatted with the head of a small investment brokerage about the China credit rating story.

Because he gives his clients very bullish, status quo advice, I assumed that he would say that China was wrong.

To my surprise, he simply responded:

They're right. What's scary is that China knows it.

In other words, everyone who pays any attention knows that we're broke. What's scary is that our biggest creditor knows it.

Tricks Up Their Sleeves?

China has been threatening for many months to replace the dollar as the world's reserve currency (and see this). And China, Russia and other countries have made a lot of noises about replacing the dollar with the SDR. See this and this.

Gordon T. Long argues that the much talked about gold swaps are part and parcel of the plan to replace the dollar with the SDR. Time will tell if he's right.

China, of course, is not without its own problems. See this and this.

In related news, Germany's biggest companies are starting to shun Wall Street as too risky.

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