

China Autumn's Ominous Augur Suicide By Trade Sanctions

Leaves aren't the only things that fall in autumn
Kelli B. Grant

It seems this summer's credit crunch and the continuing defaults of US subprime mortgages would be enough. Now, however, the US Federal Reserve has decided to play chicken with inflation. But evidently, even this is not too much.

This fall, providence is bringing yet another dish of trouble to an already over laden table—China may actually prove good on its threat to dump its \$400 billion of US Treasuries and start the long awaited flight from the US dollar.

China's threat to sell its US Treasuries—if actually carried out—will be triggered by the US Congress. This fall, the US Congress will vote on a bill that would impose a 20 % across-the-board tariff on all Chinese goods imported into the US. The supporters of the bill describe its passage as “veto-proof”—that they now possess enough votes to override a presidential veto.

This possibility calls again into question the very efficacy of democracy, *to wit* the belief that the collective will of the people is preferable to the capricious stupidity of a king or queen or any other selected or self-appointed tyrant, or indeed, virtually any government official.

Perhaps it should be argued that democracy today is not actually democracy; anymore than Christianity as practiced by the Church during the Inquisition or by Southern Baptists during slavery was actually Christianity. Point taken, but then again, at least for the sake of argument, we need to start somewhere.

The US representatives voting on the China tariff bill will be responding to the frustrations of those they lead; their constituents, whose bills are mounting while their frustrations are coming to a head and perhaps even incapable of being surmounted.

Unfortunately, Americans are looking to the very ones that led them into their difficulties to lead them out; for it was their democratically-elected representatives who sold out their interests in order to further their own that caused the trouble America is in.

Politicians Have Many Masters
None Of Which Are Themselves

The vote on China will take place in the US House of Representatives and in the US Senate. Ironically, it will be voted upon by a group of men and women who have already proved incapable of stopping a war the American people recently elected them to end.

But democracy, as practiced today, *democracy de facto*, is designed to thwart the will of the people, not to promote it. For example, in the countries that “joined” the war on Iraq (remember the Coalition of the Willing?) the majority of the populace overwhelmingly opposed the invasion. Yet in each country, democratically-elected governments over-rode the will of their own citizens to support America’s need for oil and geopolitical influence.

This time, however, the representatives of America will likely do the bidding of those who elect them and vote to censure China for its “currency manipulation”. It should be noted that they will not be doing the same with Japan—the world’s largest holder of US Treasuries (\$610 billion); for Japan is the perceived ally of the US, not its perceived successor.

Politics is, and always has been, a dirty business. Money and power is a combustible mix and history is littered with the bodies of those injured in the process. This fall, more gurneys will be needed. Should the US vote to impose tariffs on China, the consequences will be felt globally, in Mumbai, in Budapest, in Sao Paolo, not just in Beijing or Boston.

“the notorious Smoot-Hawley Tariff Act of 1930 – a policy blunder of monumental proportions.. played a key role in sparking a global trade war and the Great Depression.”

Stephen Roach, Managing Director Morgan Stanley

We are again facing the possibility of a Great Depression and history seems intent on repeating itself. The idea held by many that China will not exercise its “nuclear option” by selling US Treasuries and bringing the US economy to its knees by destroying the dollar is hopeful at best and increasingly less believable.

China is longer dependent on America to buy its goods. The Eurozone now shares the distinction of being China’s largest market. Additionally, when and if the US Congress votes to impose 20 % tariffs on Chinese goods, the damage to China’s economy will be significant.

China will retaliate; and, dumping US Treasuries on the open market will be an all too easy and accessible option. It would destroy the US dollar and deal the US economy a body blow from which it would take years to recover.

This autumn, whatever happens in the US Congress will affect the world. For in a very real way, America’s problems are the world’s problems. What happens to the US economy and US dollar will affect global commerce on a scale not experienced since the Great Depression. Hold onto your seats, my friends. Democracy is in the house.

Darryl Robert Schoon

www.drshoon.com

www.survivethecrisis.com

