RELEASE IN PART
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From: sbwhoeop[redacted] B6
Sent: Monday, September 21, 2009 9:07 AM
To: H
Subject: number of things, fyi. Sid

H: See this mild, reasoned piece below by the former editor of The Economist, a hardline conservative free trader. In light of the upcoming, mostly vacuous G-20, and the supposed mystery of the jobless "recovery," not felt by 95 percent of the country (over 10 percent unemployment rates in CA, FL, Midwest, etc), still rampant home foreclosures, and various health care "reforms" that would significantly jack up rates on the working and middle classes without insurance company cost containment, leave tens of millions uncovered, and be depicted by the GOP as tax hikes (super-Prop 13), the most important underlying issue is China's currency, the source of much of the jobless "recovery." If I were a Democrat running in MI, OH, PA, etc next year, and I didn't want to be drowned attached to Obama, I would run on it. I could tell you how it could be done, up to talking about how our policy subsidizes a slave labor system that is destroying American families--half slave, half free, etc. Someone is going to figure this out. If Democrats don't do it, Republicans will figure out a toxic xenophobic version that could even turn CA given its history. As I understand it, State helped shut down Geithner's early view delivered in his confirmation testimony on this matter. This new politics is coming, one way or another, including "rough beast" form. Meanwhile: I had lunch yesterday with Philip Bobbitt, who told me he had recently been at the Bohemian Grove and had lunch there with Kis singer and Colin Powell. Powell offered his opinion that if the Democrats do poorly in the mid-term elections, Obama, as he judges him, would quickly reduce the commitment in Afghanistan. That, at least, is Powell's private opinion. I am now on way to NYC, Emmys ceremony tonight (Monday), nominated for the documentary; Max's NY book party; and CGI. Very, very good that the Irish panel has worked out. Sid

From The Times
September 21, 2009

Time to stop being chicken and talk about China

The most important subject for the world economy won't even be on the agenda in this packed season of summitry

By Bill Emmott

An economic crisis that began as a drama, or even a tragedy, is descending into farce. It is bad enough at home, what with Labour and the Tories arguing over whose spending cuts will be the nastiest, when the real issue is what it will mean for Britain to have a budget deficit that might reach 15 per cent of GDP next year. Abroad, however, things are taking an even more absurd turn, with the world's two supposedly most important countries, America and China, descending into a trade row about Chinese car tyres and American chickens.

Moreover, we are entering a packed season of international summitry, with the G20 countries=2 0meeting in Pittsburgh this week to put the world to rights in a trendily broad and inclusive way, just ahead of the annual meeting of the International Monetary Fund in Istanbul. But what are they planning to do? They will talk mainly about bankers' bonuses. They will do so in a format seemingly designed to prevent proper thought or decision-making, or at least long speeches from Nicolas Sarkozy and Gordon Brown: the world's mightiest heads of government will meet for just a dinner and a morning, giving them about five minutes each to get their points across.

Amid this comedy, the most important topic in international economic policy will not be discussed at all, either in private or in public. The silence on this vital issue is partly because it is complex. Mainly, however, our global leaders will be silent for an unfunny but alarming reason: to avoid offending one among their number, China.

At this point in articles about the importance of unspoken issues, it is traditional to cite a literary analogy: typically, Sherlock Holmes and his dog that didn't bark; or Lady Bracknell's exhortation to her niece to "omit the chapter on the rupee — it is somewhat sensational". Readers should feel free to insert their own preference, but the rupee might be the more apt. For the subject about which our leaders will be silent is the Chinese currency, the renminbi, also known as the yuan.

This issue is vital because the big background to today's economic crisis is the unbalanced nature of the global economy. For the past decade or so, Americans, Brits and some other Europeans have consumed and borrowed beyond their means, running up big balance-of-payments deficits, while China, some other Asian countries and the oil producers of the Arab world have consumed too little, saving far more than they were spending and running up vast balance-of-payments surpluses.

Their capital exports provided the great flood of money, the financial equivalent to the European wine lakes of yore, that swept along the credit boom and the disastrous manoeuvres of our Western banks. Thanks to Western self-flagellation, it is common to see this as a long-term sign of our decadence and decline. But in reality it was a creation of the past ten years, after the previous big financial crisis in East Asia convinced China and many others to keep their currencies pegged low, to build up big current-account surpluses and, as a result, to build vast foreign-exchange reserves (in China's case \$2 trillion-worth), much of it held as dollar securities.

That, along with the domestic politics of preserving trade union backing for President Obama's healthcare reforms, is also the background to last week's trade row about tyres and chickens. That is the American response to unbalanced trade: to threaten protectionism against imports from China made 0Aartificially cheap by the rigged renminbi. The Chinese response, beyond crying foul about fowl, has been to try to divert the world's attention by claiming that the dollar is the real problem, along with its "hegemonic" role in global reserves. But this need fool no one except Hugo Chávez and Vladimir Putin. The real problem is the renminbi.

China is the world's largest exporter and its third-largest economy. Yet among the leading economies it is the only one whose currency is not freely convertible, with a price mainly set in the markets. From mid-2005 until late 2007, China gradually revalued the renminbi against the dollar by about 15 per cent. But since then the appreciation has stopped. And as the dollar has been weak against the euro and even the pound, the Chinese undervaluation against those currencies became worse.

There has been a lot of waffle since the crisis began about the need to get Chinese, German, Japanese, Malaysian, Arab and many other high-surplus countries to consume, and hence import, more. But the one measure that would stand a chance of making a difference — floating the renminbi — has been taboo since the US Treasury Secretary, Tim Geithner, caused outrage in Beijing by describing it as "manipulated" in his Senate confirmation hearings. The truth often hurts.

It is time, surely, to end the silence over this topic, the one big global macroeconom ic issue that really matters. With Chinese convertibility, a lot of other Asian countries that have pegged their currencies to the dollar to remain competitive in and with China would also be stirred to change their approach.

Could it happen? Most China-watchers assume that it will take ten years or more. I disagree. It could be done in three at the most. For China at last has an interest in changing its currency policy too: first, because of its problem in facing up to the currency risk on those \$2 trillion of reserves; second because, thanks to its huge domestic stimulus package, it faces a real risk of inflation; third, because its leaders know (and regularly say) that Chinese industry and the Chinese economy needs to move upmarket, out of low-cost car tyres and into higher (and cleaner) technologies. The chapter on the renminbi has become too sensational to ignore.

Bill Emmott is a former Editor of The Economist and author of Rivals: How the Power Struggle Between China, India and Japan Will Shape Our Next Decade