

China's Juggernaut Economy

By **CHRYSIA FREELAND**
The Washington Post

ianism works.

That notion has become particularly tempting at a time when so many Americans, on the right and the left, are skeptical of the efficacy of their government. By contrast, many, particularly in the U.S. business and political elite, openly admire the effectiveness of China's state-controlled version of capitalism. Indeed, a popular intellectual trend, as Stefan Halper, Ian Bremmer and others have noted, is to suggest that, especially in the wake of the global financial crisis, China's economic model — a.k.a. "the Beijing consensus" — could replace the U.S. model.

That's plain wrong. Centrally planned economies tend to be good at wrenching societies out of agricultural poverty into the industrial age — especially when the technologies needed to accomplish that shift have been invented elsewhere. Remember that in the 1930s, '40s and even '50s the Soviet model seemed viable, for precisely

that reason.

So far, China's rise has mostly been about industrializing an incredibly poor, rural economy. Even today, China's \$3,600 per capita GDP is roughly on par with those of El Salvador and Albania. We haven't seen whether centrally run China will be able to take the next step and compete at the cutting edge of technological and financial innovation. When South Korea went through the same transition in the 1980s, it also shifted to a much more democratic form of government and freer version of capitalism.

One reason state capitalism may falter as China gets richer is that it may be hard to allow people to become consumers without letting them become real citizens, too. One of China's big economic challenges over the next decade will be to allow its domestic market to grow. That will mean giving the Chinese people more spending power. As the Chinese become more bour-

geois, they may demand more political rights, too.

A second constraint on state capitalism will be innovation. The American political economy has many flaws — collapsing infrastructure, a hollowed-out middle class. But America has one great virtue that no other country has yet to replicate: When it comes to innovation and its translation into things people want, America is unbeatable. This is the country of Apple, Google and Facebook. These are the inventions driving the technology revolution, and only an open society can create them.

In fact, China is an object lesson in the threat that centralized, authoritarian states pose to revolutionary technological development. One of the big questions historians wrestle with is why China, which was on the brink of industrial revolution in the 14th century, then seemed to give up on radical technological change, ceding the initiative to Europe.

A favorite explanation for those centuries of stagnation is the same one we offer for China's current dynamism — its centralized, authoritarian state. As economic historian Joel Mokyr has written, "the absence of political competition did not mean that technological progress could not take place, but it did mean that one decision maker could deal it a mortal blow."

Meanwhile, in chaotic, divided, inefficient Europe, when one ruler decided to repress his innovators, "they did no more than switch the center of economic gravity from one area to another." Dictatorships aren't so great at self-correction.

The United States shouldn't be complacent about China's rise. At the very least, it means that American companies, American politicians and the American people need to adapt from the comfortable role of the globe's sole hyper-power to the tougher task of working in a multi-polar world.

WAYCROSS JOURNAL-HERALD

ROGER L. WILLIAMS
Publisher
JACK WILLIAMS III
Editor

Founded 1875
400 Isabella St.
Waycross, Ga. 31501

GARY GRIFFIN
Managing Editor
DONNIE L. CARTER
Business Manager

JACK WILLIAMS, JR., Publisher (1957-1992)
JACK WILLIAMS, Editor & Publisher (1914-1957)

P-5 Waycross Journal-Herald, Tuesday, August 31, 2010

Thought for Today "The Lord is merciful and gracious, slow to anger, and plenteous in mercy." Psalm 103:8

Mayhem On The Border

The Augusta Chronicle ... ing. Anyone who thinks America's ... was they kidnap migrants and der is a thing of compa ... in payments out of fam- what 72 dead b ... happens when That's the num ... found ... trapped near the ... September from Cent ... ing to the be ... killed ... purpose- ... giving over a la ... The ... lice dis ... buried ... near ... 55 ... abandoned town of ... enforce ... violent lawless- It seems the dr ... poisoning Ame ... creasingly bra ... off ... larly

To View The Entire Newspaper Online Please Visit Our Subscription Page.

Barnes, Deal Get Nasty

The Albany Herald

The general election is under way. Unfortunately, if you expect to examine each of the contested races to determine who's stand on what issue is most in line with your thinking, it may take you a while to do it.

There's going to be a pretty deep pile of mud to scrape off first.

Just take a look at the Georgia gubernatorial race that features Democrat Roy Barnes, a former governor; Republican Nathan Deal, a retired U.S. representative, and Libertarian John H. Monds, a Cairo homemaker.

The tenor of the campaign has started out nasty. Deal's opening salvo ends with the words: "Roy Barnes, he's just like Obama — only worse."

Meanwhile, Barnes is questioning why Deal won't reveal his income tax records like Barnes has. "What is Congressman Nathan Deal hiding this time?" his campaign asks.

Monds, who's light years behind the others in campaign funding, might siphon off enough votes to force a runoff if the election is close. The chance to make a point or two at debates that develop before the election will be his primary impact as Deal and Barnes battle for the Governor's Office.

It would be wonderful if a real political dialogue were to break out in this race ... but it won't. The sad fact is negative campaigning works.

Politics has always been a ruthless vocation. It's not enough that you appeal to voters, especially in statewide races. You also have to make your supporters and as many undecided voters as possible absolutely terrified that your opponent might win — and end the Republic as we know it — if they don't come out and vote for you.

At election time, fear is the motivating factor that works best for getting people out to the polls. And that means you have to demonize your opponent.

It's the same methodology that nations have used ad infinitum to motivate their people to battle enemies of the state. It's not enough for your

cause to be right; the other's cause must be the darkest depth of evil. Centuries of this propaganda have made people look for differences between "us" and "them," leading to institutionalized mistrust from all sides when one of "them" doesn't look, act or talk like one of "us."

A report last week showed that campaign spending on ads is up significantly for this year's mid-term elections compared to the mid-term elections of 2006, somewhere in the neighborhood of 38 percent. Of the candidate campaign ads, about half are negative. Spending by parties and outsider groups also is up by about that percentage, and four out of every five of those ads are negative.

And no candidate is above using the tactic. U.S. Sen. John McCain, R-Ariz., was in real trouble in that state's GOP primary from a caustic challenge by J.D. Hayworth, a firebrand former U.S. representative turned conservative commentator. McCain rolled up his sleeves, dug deep into the mudpile himself and beat Hayworth decisively at his own game.

That's what electioneering has become to a large extent — a game of who can make the best accusations and innuendo stick. Politicians learn by repetition, and what they've learned is this — go negative early, go into office.

As voters, we've no one to blame for this but ourselves. We don't dig to find truth. We let one candidate assail another's voting record without looking to see whether the "facts" as presented are actually factual. We let "experts" who are more concerned about their ratings and egos frame events for us with their epideictic oratory. Because this most precious right we have — the right to determine our government — is something we take for granted, we abdicate our responsibilities as citizens to make informed decisions and instead make shallow, emotional ones.

And in the end, all too often, we get just what we deserve.



Monetarism Shunned By Bernanke's Fed

By **CAROLINE BAUM**
The Washington Post

NEW YORK -- Milton Friedman, Nobel Laureate in Economics, died in 2006. Monetarism, the school of thought he founded, seems to have died with him, judging from recent comments.

Academics, such as Princeton's Alan Blinder and Harvard's Martin Feldstein, are claiming there's very little the Federal Reserve can do to stimulate the U.S. economy. Newspaper headlines deliver the same message: the Fed is "Low on Ammo." The public is feted with explanations — couched in technical terms, such as the "zero-bound" and a "liquidity trap" — as to why the Fed's hands are tied.



Bernanke

What planet are these people on?

In 2002, a new Fed governor named Ben Bernanke delivered a speech to the National Economics Club in Washington entitled, "Deflation: Making Sure 'It Doesn't Happen Here.'" The former Princeton professor and Great Depression scholar told the audience that the U.S. government has a technology called a "printing press" that "allows it to produce as many U.S. dollars as it wishes at essentially no cost."

That speech earned him — unfairly, in my humble opinion — the moniker "Helicopter Ben." Bernanke, who got his Ph.D. in economics at MIT, was merely adopting a teaching tool used by Friedman and the University of Chicago economics faculty. Friedman would illustrate the money creation process to his classes by asking them what would happen if a helicopter were to fly over the city and drop \$100 bills. If people were content with their current money balances, they would spend the money.

The central bank increases the money supply in much the same way. It's not necessary for the public to want to hold more money for the Fed to create it. Money supply, in other words, isn't dependent on money demand.

When the Fed buys securities from the non-bank public, it creates demand deposits. Unless people are going to sit with money in their checking accounts earning next to nothing indefinitely, the Fed has the same old ammunition it always had (a printing press), not "only the weak stuff," as Blinder wrote in a *Wall Street Journal* op-ed last week.

Where have all the monetarists gone? They are clearly an extinct species at the Fed. Bernanke has gone out of his way to explain the Fed's purchases of \$1.4 trillion of agency mortgage-backed and debt securities as credit easing, not quantitative easing.

Credit easing is by definition quantitative. It doesn't matter what the Fed buys: Treasuries, Toyotas, toilets or Tootsie Rolls. It's the act of buying something that creates money. If the Fed prints more money than the public wants to hold, people will spend it.

That's Friedman's monetarism in a nutshell. Instead we were treated to an elegant explanation of the "portfolio balance channel" in Bernanke's opening remarks Friday at the Kansas City Fed's annual economic symposium at Jackson Hole, Wyo.

I had never heard that term before and was eager to learn about it. (A Google search confirmed my suspicions that interest in the PBC is limited to academics.) The way Bernanke explained it, once the nominal federal funds rate runs up against the "zero bound," the Fed's purchases of longer-term securities "affect financial conditions by changing the quantity and mix of financial assets held by the public."

In other words, the Fed buys Treasuries, agency debt and mortgage-backed securities, lowering the yields and pushing investors to buy similar assets, such as high-grade corporate bonds, depressing those yields in turn.

Bernanke said there was support for the idea that the Fed affects financial conditions via the "quantity and mix" of the securities it purchases, known as the "stock view," rather than the "pace of new purchases," known as the "flow view." (Please direct all questions and comments on the subject to the Federal Reserve Board in Washington.)

There was no mention of the quantity of money, which in the old days used to be the measure of the degree of accommodation. Instead the Fed is now focused on the asset side of its balance sheet, not the liability side.

"Bernanke's narrative is about the 'easing of financial conditions,' or lower long-term rates," said Stephen Stanley, chief economist at Pierpont Securities in Stamford, Conn., in a review of Friday's Jackson Hole speech.

The rate on 30-year fixed-rate mortgages fell to a four-decade low last week of 4.36 percent, according to Freddie Mac. That's done little to stimulate demand for housing, with both new and existing home sales plunging in July. Maybe another 50 basis points will do the trick?

In his speech, Bernanke acknowledged that financing costs aren't the primary determinant affecting a large firm's willingness to expand and hire. Instead, expected demand for their product drives those decisions.

Perhaps it's the same for homeowners. With housing prices artificially supported by government programs designed to help homeowners to stay in houses they couldn't afford in the first place, potential homeowners may be waiting for prices to fall to levels that more accurately reflect supply and demand.

Bernanke promised the Fed "will do all that it can" to ensure a continuation of the recovery, and I'm sure he means it. He might start by scouring the country for the handful of monetarists remaining. Surely there are a few Friedman students willing to offer their services.

EDITOR'S NOTE: *Caroline Baum is author of "Just What I Said."*