

China's Dollar Jitters

Losing patience with Obama

If you think you have reason to worry about this recession, consider poor Chinese premier



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Wen Jiabao, who's sitting on \$1.2 trillion of our government's IOUs. Wen said a few weeks ago that he's "a little bit worried" that America might cheapen the dollar so much that he will end up cashing in those Treasury bills and notes for dollars that won't buy very much.

If he was a little bit worried a few weeks ago, he must be very worried now. The Fed plans to buy at least \$300 billion of Treasury IOUs in the next six months, pour \$1.45 trillion into the mortgage market one way or another and keep interest rates close to zero for an "extended period." And there's more in the Fed's "do whatever it takes" arsenal — all of which means the presses will be working overtime turning out pictures of American presidents printed on green bits of paper.

The Fed's decision to pump trillions into the money markets comes on top of President Obama's proposal to drive the federal deficit to an astonishing 13 percent of GDP, quadruple what it was in the last Bush budget. He needs to borrow trillions to fund his so-called stimulus package, universal health care, a green energy system and the rest of his wish list.

Not to worry, says Obama:

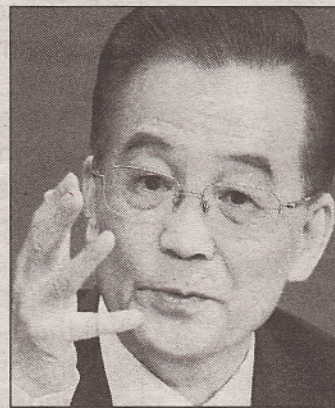
America will never default on its debt. But it now costs seven times as much to buy insurance against such a US government default as it did only a year ago.

And a default isn't the only risk: America can always inflate its way out of its obligations.

Obama claims the economy will soon be racking up growth rate of around 4 percent a year. Along with the tax hikes he'd impose on the top 2 percent of earners, the billions he'd charge for carbon-pollution permits and his reductions in age-related entitlements, he sees that growth driving the deficit down to a sustainable level.

Unfortunately, 2 percent of earners can't or won't carry the entire burden, the carbon-permit program might not produce the predicted revenues after Democratic congressmen from coal states chop away at it and Congress has told the president that any proposal to reduce the massive entitlement payments due the aging baby boomers will be DOA — dead on arrival.

The nonpartisan Congressional Budget Office shook up everyone, including congressional Democrats, with a study showing that even if the economy grows as Obama predicts, his budget will pile up deficits of \$9.3 trillion over the next decade, with the deficit coming to 13.1 percent of GDP this next fis-



Wen: In self-defense, may rein in Beijing's lending to America.

cal year and remaining at astonishing and unsustainable levels right through 2019.

That is a lot more red ink than the president is predicting.

Democrats know that if the widely respected CBO is right, we're in for an inflationary binge of the sort that sent Jimmy Carter back to his peanut farm.

Fed Chairman Ben Bernanke says he can drain all of the extra dollars he is printing out of the system when the time comes, and the Democrats say they'll trim the Obama budget. But Bernanke is haunted by his studies that show that the Great Depression was prolonged when the Fed tightened money too soon. So he'll stall. And the Democrats in Congress are led by Nancy Pelosi, Charlie Rangel & Co. — the same crew that delivered a

budget for the rest of this year so laden with pork that the president signed it in private, no press allowed.

Meanwhile, poor Tim Geithner will try to peddle the trillions in Treasury IOUs needed to fund the Obama deficits and the Fed's programs. But China needs to keep more money at home to cope with its rising domestic needs.

Beijing will still buy some of our IOUs, because it has to do something with all the dollars it gets for the stuff you see on Wal-Mart shelves. But, at the first whiff of runaway inflation, Wen will press hard to get us to sign onto his new plan: We give up the dollar for some international currency.

At his press conference on Tuesday, the president, in one of his few unequivocal answers, said he wouldn't go along with any such plan. But he is the man who assured us he'd never approve earmarks — then signed a budget with 9,000 of those congressional gifts to constituents.

China's patience with Obama's borrow-and-spend is plainly running short. If Wen decides that he'll continue lending to us only if we pay a higher interest rate, he will drive up rates here on mortgages, car loans and the like. That would nip our recovery in the bud.

Obamanomics, in short, might prove to be the worst thing to happen to us since Jimmy Carter.

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