

Dollar Downer: China Gets Nervous

WE owe China more than a trillion dollars. For years, that country's sent us sneakers, microwave ovens and other stuff we like, and we've sent back green bits of paper adorned with American presidents. There isn't much China can do with these dollars, so it sends them back to pay us for the Treasury bills and notes — our IOUs — that they store in their vaults. That way, they earn some interest.

Now Chinese Premier Wen Jiabao and his colleagues are worried about getting paid some day. Not that America will go broke, and leave China stuck with our IOUs, a situation in which so many General Motors bondholders find themselves. America can't go broke: We have printing presses that can print as many dollars as the Treasury orders. So we can pay off any debt to China — or anyone else — by running the presses faster and longer.

That's what has the Chinese so upset, and why the value of the dollar is hitting record lows in world markets.

When Richard Fisher, president of the Dallas Federal Reserve Bank, visited China recently, government officials there repeatedly asked him whether we



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would continue to run the presses overtime so that the Fed could buy up all the IOUs the Treasury now needs to sell. The money to fund the trillion-dollar deficits that the Obama administration says it will run up in the next decade has to come from somewhere.

It's not a good idea to raise taxes in a recession, so that's out. The president was hoping to get several hundred-billion by selling pollution permits under the cap-and-trade scheme, but Congress decided to give most of those away to favored constituents in the utility, oil and other industries.

So the government has to borrow, which means the Treasury has to sell its IOUs. Until recently the Chinese were obliging buyers. But now they see the Fed buying those IOUs using newly printed dollars.

Print enough dollars, and each one will be worth less — think of Zimbabwe and pre-Hitler Germany, where it took wheelbarrows full of notes to buy loaves of bread.

It won't come to that, of course. But if you had lent our government a few-thousand dollars 10 years ago and got repaid

today, you would find those dollars buying a lot less than the dollars you lent. That's what the Chinese fear.

Why should we worry? Well, if the Chinese regime decides to stop buying our IOUs — or, worse still, to start selling some of the trillion or so they have in the vault — we would have to pay more to get the dwindling band of buyers to lend us money. That means the Treasury would have to offer higher interest rates to unload its paper.

Up would go mortgage rates, the rates businesses have to pay to borrow money to finance that new plant, interest rates on credit cards. Down would go the rate of economic growth and job creation.

The Chinese are not bluffing. They've already sent two warning shots across our bow.

The first was a statement that the world should stop depending on the dollar as the currency of business and develop another, perhaps managed by the International Monetary Fund. Instead of paying for our oil in greenbacks, we would have



Wen: Worried US will inflate its way out of its Chinese debt.

to line up like everyone else at the IMF window to buy currency at whatever price might prevail.

Then, a few weeks ago, a Chinese delegation dropped in on the president of Brazil to lock up a deal to buy that country's oil. In the past, China would've paid the Brazilians with dollars, helping to keep our currency strong.

No more: It will pay for the oil with yuan, which Brazil will then use to pay for products it imports from China.

Sensible folks at the White House are nervous. They know that the president's plans for huge deficits will require running the presses and driving down the value of the dollar.

Unless, of course, taxes go up. Way up. Which is why there is talk in Washington about a national sales tax.

That would make the Chinese happy, but it might not go down so well here at home.

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