The Examiner

Irwin Stelzer: Debt will hurt U.S. foreign policy too

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Think beneath the headlines about trade deficits, unemployment rates, budget deficits and health care. Consider, instead, what all of this means for what is even more important than the fact that we are willing to our children an ocean of red ink that they will have to drain -- the position of America in the world in which they will live.

But first, give up the long-held myth that prosperity and an emerging middle class will be followed by a political liberalization. These newly enriched consumers will insist on unimpeded access to information, and on a say in the selection of their political leaders, who will gradually cede power and retire to their dachas and villas.

Alas, not true. It turns out that prosperity keeps autocrats in power -- increased material living standards serve as a sort of bribe to the masses. The deal is: We will deliver jobs and rising living standards, and you will leave the levers of political power in our hands. If that deal starts to unravel, we will add to the mix appeals to national pride, which will take the form of flexing our muscles in ways that emphasize that America can no longer call the shots in important geopolitical matters.

What is true is that national power depends importantly on economic power. Not entirely: Leadership matters, as the decline in American influence resulting from President Obama's serial apologies and bowing shows. But importantly.

Start with America's economic position, and surrender another myth. It has long been fashionable to argue that just as our dependence on China to continue to buy billions in our IOUs makes us dependent on the Chinese regime, China is dependent on us not to devalue the dollar and therefore the value of the Treasury IOUs piled in its vaults. There is some truth in that, but only if we assume that China's leaders are purely economic actors, driven only by a desire to maximize the value of their foreign reserve holdings. That is simply false.

At the recent gathering of the leadership in Beijing, the bankers who argued that the regime's trade policy should be determined by economic criteria lost out to those who believe that politics must dominate. The banker types want to ease the tie that binds the value of the yuan to the value of the dollar, with the Chinese currency significantly undervalued. They fear the inflationary effects of such a peg.

Enter those who hold power in China. They look at trade not as a way to ensure that the nation's resources are efficiently utilized, but as a way to keep up their end of the bargain with the masses -- to pay the bribe that they know must be paid if they are to remain in power.

That means keeping the export industries humming, which in turn means keeping the yuan undervalued so that Chinese goods are super-competitive in world markets, most especially in the United States. The dollar peg stays.

The success of this strategy is not confined to the maintenance of power. It also includes an extension of the international clout of the regime, at the expense of the United States.

Secretary of State Hillary Clinton found out during her recent visit to Brazil that our South American neighbor would prefer to vote with its new, important Chinese trading partner to kill any prospects of new sanctions on Iran, than continue to side with an increasingly indebted United States.

Back to future generations. Unless current trends are reversed, the huge federal debt might be the least of the legacy we are willing to them.