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## China Has U.S. By The Purse

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**Who has real power** over U.S. decision-making? If you think it is the White House, or even the Congress, think again. There has been a power shift underway for years and, believe it or not, our future and fortune rests in the hands of bureaucrats on the other side of the world. Sorry folks, but our red, white and blue economy is afloat because of members of the Politburo of the Chinese Communist Party.

Yes, the Red Menace that we spent so many years fearing as a military threat now represents a far more serious economic threat. Mao must be turning in his grave with the news that no less than six U.S. Cabinet members are on their way to the Middle Kingdom on Wednesday to beseech, beg, lobby and try to persuade the new mandarins not to sell off their vast reservoir of dollars.

There's an old saying that a person can be in trouble when he owes a bank a hundred bucks. But if he owes \$100 million, the bank could be in trouble. We owe China billions, but they realize that collapse of American capitalism—once a goal—could also trigger a collapse of Chinese "communism." That's how mutually intertwined we have become, and how complicit we are with a government which the Committee to Protect Journalists says now jails more journalists than any other.

The New York Times [reports](#) on the big trip that will bring Treasury Secretary Henry Paulson and company on their ballyhooed "excellent adventure" to Beijing. Yet it doesn't look like much will happen:

"...Pressure is mounting on [Paulson] to produce results or face a wave of protectionist measures in the new Congress next year.

Mr. Paulson conferred this week with business leaders urging him to bring about changes in China's economic practices, particularly its regulated economy, manipulation of currency levels to spur exports and its failure to crack down on piracy of software, pharmaceuticals and other items.

At the same time, Mr. Paulson's aides were also conferring with Chinese representatives preparing for his Dec. 13-15 trip. Both sides cautioned not to expect breakthroughs on the big issues, in part because the Chinese cannot be seen as kowtowing to American pressure."

So we will hear a lot of rhetoric in the days to come about China's failures to honor agreements and violations of trade regimes. They will all be true—but besides the point. Who has the power to bring China into line? We don't. We are as dependent in Beijing as we are in Baghdad.

The Times [reports that](#) "Pascal Lamy, director general of the World Trade Organization, said in a recent interview. "There are constituencies and vested interests. You can't deal with the Chinese by

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banging on the table, going to the balcony and saying, 'This is what I want.' ”

What's really going on? It looks like this could be the opening stages of a trade war, revolving in part around the shrinking power of the dollar.

And that war could do more damage to the U.S. than the defeat in Iraq.

Already, [as I have reported](#) , the Treasury Department has opened a global crisis management center that sounds very much like an economic war room. It is headed by none other than Jim Wilkinson, the GOP info warrior who ran the Coalition Media Center during the opening days of the Iraq War, when great victories were all we read about in the news.

What we are not reading today is how serious this is. And how our national and consumer debt is at the center of it. Reports [The Economist](#):

America's growth has been driven by consumer spending. That spending, supported by increased borrowing, is clearly unsustainable; and the consequent economic and financial imbalances must invariably unwind. As that happens, the country could face a prolonged period of slower growth.

The bill is coming due. The piper must be paid. And all the financial wonks and gnomes and commissars worldwide know it. In many quarters, the euro looks like a better bet than the dollar. Why? The Economist says productivity growth is going down in the U.S. and up in Europe. The U. S. structural budget deficit has widened and American savings has gone down. Their cover story speaks of illusions in Washington. Sound familiar?

A slump in the American economy is likely to be cushioned by banks and investors overseas because it could bring them down, too. What this means is that we are dependent on what others do or fail to do. Washington is actually undermining the dollar in hopes it will make our exports cheaper and thus ease the deficit. It's our way of pressuring the Chinese and try to get them lower the value of their currency.

Clever? Don't be so sure. They are not fools.

If China's wise men decide that propping up the dollar is not in their interest, they can move more money in euros. And then the real battle begins. Already their finance minister said they are "diversifying" their currencies. That's not in "our interest" and yet our monetary manipulations could backfire, as Robert Sinche of the Bank of America suggests. Listen to this:

Let's say China revalues by 10 percent overnight. The prices at Wal-Mart go up 10 percent. So we then see worse inflation, the Fed tightens monetary policies and we end up with higher inflation, higher prices and higher interest rates. Remind me again why that's what we want.

Forget the Beijing Olympics. This is the real game in town.

So if you didn't trust this administration on the war, why should you trust them on economics? When you know the war casualty figures have been downplayed, why do you think the jobless figures and "misery index" are not? Would you give your money and your destiny over to con men? Of course not, if you knew what the con is.

Unfortunately, the real news about these manipulations is buried in the labyrinth of the business pages, where many claim of having the "MEGO" (My Eyes Glaze Over) effect.

So that's why it's time to pay attention to the dropping dollar, the China game and the housing "train wreck," as experts call it. It feeds into the global credit crunch and affects all of us, and we need our media to explain it all more clearly—with less of a big business bias and more of a "who wins and who loses" framework.

While we watch one war go up in flames, the matches are being lit for another one.

