

Economist's View

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December 18, 2006

James Galbraith: Clueless in China

James Galbraith expresses sympathy for Ben Bernanke on behalf of all economists:

[Clueless in China, by James K Galbraith, Commentary, The Guardian:](#)

Speaking as I rarely feel entitled to do, on behalf of all my fellow professional economists, I felt true, true sympathy last week for Ben Bernanke, as he trailed after Henry Paulson in China.

Paulson's China policy is easily understood. In the United States government the Treasury represents the interests of Wall Street, as Joe Stiglitz has written eloquently... An alumnus of Goldman Sachs, Secretary Paulson is ideally suited to his job.

And what Wall Street wants from China is what Wall Street always wants: the freedom to speculate (excuse me, invest) in currency, corporate stocks and bonds, and real estate. Wall Street loves risk, uncertainty and volatility. The Chinese don't. This is a conflict. It is not in any sense a complicated question.

Paulson made a power play, based on a threat: open up or we'll shoot ... based on a bluff. Since the bluff was transparent, the Chinese called it. And when they did, the US side folded. The Chinese then completed the hand by giving back a few symbolic concessions, so that Paulson's team would not have to admit ... that the trip had accomplished nothing at all....

Bernanke is an economist..., he is at heart an academic. In other words, he has standards, and a certain amount of professional dignity to maintain.

And last week he had the sorry job of putting economic lipstick on Paulson's pig. More than that: Bernanke had to argue that it was in China's economic interests to go along with Paulson's plan. Worst of all,

he had to talk past the Chinese officials, who somehow seemed to feel that they have a better understanding of their own interests. It must have been dreadfully embarrassing.

Bernanke gave it a good college try, with an impressively wonkish [speech](#)... On no evidence at all, he argued that a higher RMB would help China maintain its economic growth. The trouble with this that current policy has given China world-beating economic growth for three decades. Bernanke knows this (and said so), so he couldn't press this argument very far.

Next, having credited Chinese growth partly to its high savings, Bernanke made his second argument: China should now bring its savings rate down. This he said should be achieved by improving China's social safety net, so that Chinese families would feel less need to squirrel away funds to cover health care and old age. Apart from the direct benefits, Bernanke argued that this would reduce China's trade surplus by increasing Chinese household consumption.

Finally, as the US delegation left town, Paulson rather gratuitously promised to try to increase private savings rates in the United States, which Paulson wants to do, of course, by cutting Social Security and Medicaid.

So here's the Bernanke-Paulson position in brief summary:

- 1) China's currency strategy has helped produce rapid growth for 30 years; therefore it should be abandoned.
- 2) China's high savings rates have been a key to this success; therefore they should be reduced.
- 3) China, a country emerging from communism, should spend more on public health and social security, so that ordinary Chinese can save less. (This is actually a good point, as far as it goes.)
- 4) The United States, a capitalist country, should spend less on social security and public health, so that ordinary Americans will be forced to save more.
- 5) Somehow, all this will reduce the deficit in the US-China balance of trade, a goal whose importance everyone agrees on but that no one can actually explain.

Adam Smith wrote it; I only quote it:

Such as they were, however, those arguments convinced the people to whom they were addressed. They were addressed by merchants to parliaments and to the councils of princes, to nobles and to country gentlemen, by those who were supposed to understand trade to those who were conscious to themselves that they knew nothing about the matter ... Those arguments therefore produced the wished-for effect ... The attention of government was turned from guarding against the exportation of gold and silver to watch over the balance of trade... From one fruitless care it was turned away to another care much more intricate, much more embarrassing, and just equally fruitless.

I've been thinking about the proper role of the Fed chair in this situation, i.e. the extent to which Bernanke should speak out on matters such as this. I don't have the answer (your thoughts?). The Fed chair is partly a political appointment that brings the Executive branch's interests to Fed policy table, but the Fed has a larger responsibility to protect the overall public interest, not the interests of any particular sector (as the Fed has argued many times when speaking out against targeting asset-price bubbles).

On that basis one thing is clear, the Fed chair should not take public positions that undermine the credibility of the Fed as protector of the larger public interest rather than the interests of Wall Street or any other group. I think there is already some belief that the Fed has moved in this direction with its adoption of inflation targeting (which some view as holding down wages to benefit business), and other actions haven't helped to insulate the Fed from criticism for taking political positions, e.g. Greenspan's remarks on taxes and deficits.

I think Bernanke's position can be justified on an economic basis, i.e. there is theoretical support for the position that the policies he advocates for China will raise economic well-being generally. And though the speech wasn't directed at the implications for U.S. monetary policy, there is a connection to U.S. monetary policy and it did give advice on China's monetary policy, so in that sense it is within the Fed's purview.

But as the Galbraith commentary above makes clear, I'm not sure it passes the political test of not appearing to represent a narrower set of interests. Given the importance of Fed credibility, from my perspective an abundance of caution is in order when the Fed chair speaks, and I would prefer that the Fed limit

itself to comments that relate directly to the conduct of U.S. monetary policy.

Posted by Mark Thoma on December 18, 2006 at 12:06 PM in [Economics](#), [Monetary Policy](#), [Politics](#) | [Permalink](#) | [Comments \(87\)](#)

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Mark Thoma pegs the China trip of Paulson and Bernanke. I'm all for sending high level delegations to important countries, but I believe our "marketing" of this one has come off to the Chinese as a bizarre mix of pathetic begging and arrogant condesce... [\[Read More\]](#)

Tracked on Dec 18, 2006 11:51:42 PM

Comments

A remarkable post and commentary.

Posted by: [anne](#) | Dec 18, 2006 12:27:54 PM

mark:

are you saying the forex is not a fed matter but a treasury matter ??

i know jamie is saying that

but are u too???

btw

jamie has no use for deval dollaring

he quotes his father
to the effect
deval to blance trade is like
whiskey
to the mohawks

my take

tell this to the swedes
not jumping into the euro
wage compacter
saved their system

Posted by: [slink](#) | Dec 18, 2006 12:43:32 PM

"In the United States government the Treasury represents the interests of Wall Street, as Joe Stiglitz has written eloquently... An alumnus of Goldman Sachs, Secretary Paulson is ideally suited to his job."

I;m glad a really smart person said what I have been saying for months - Paulson is going to pump up China aand Wall Street for two years and then beat it back to the Street.

Posted by: [save_the_rustbelt](#) | Dec 18, 2006 12:43:38 PM

There's a comment on this over at the Guardian site which expresses my thoughts. He makes an interesting point. Much is made (esp by 'maria') that the U.S. is a debt junkie, financing growth and consumption with debt. This quote makes the point that China is a 'U.S. growth' junkie, by the same analysis. This is 'Barney':

There is near constant commentary these days about which of these two countries has an advantage over the other. Economic and financial ties between China and the US are more incestuous than this article suggests. Firstly, China is about the supply side. It is receiving massive capital

inflow and manufacturing capacity from post industrialised economies with affluent, consuming middle classes living off service industries. Of all the consumers in the world, Americans remain the most optimistic, and affluent. If the US consumer trips, the world's main engine of growth shuts down. China will slow. Its trade surplus is considerable with the US, but not with other trading partners. China is a US growth junkie, ever eager to produce all that will dull the senses of the consumer of last resort with cheap product...billig und schlecht at that. But China knows the limits of ballooning US trade and fiscal deficits. Potential US protectionism. A steep decline in the USD, wiping out the worth of the trillion dollars or so in US Treasury bonds it owns. Less capital and technological transfers. No more consumer of last resort. And do not be overly dazzled by the stellar rates of growth of the Chinese economy. Growth spurts cause pain. They test society's capacity to adapt. It is in China's interest to bring the steam down because high pressure means high risk. For everybody.

Posted by: [dissent](#) | Dec 18, 2006 12:52:41 PM

slink - That's why I said there is a connection to monetary policy.

What I am saying is that I would prefer that the speech be directed at the monetary policy implications, that it tell us about how the Fed will conduct monetary policy in response to China's policy. How does the Fed view these matters and how will policy react? I don't think we learned anything about what to expect from the Fed from the speech.

If there's a connection to forex, etc., tell us what it is and how it affects the policy outlook.

Posted by: [Mark Thoma](#) | Dec 18, 2006 12:55:32 PM

how much of what went on in china was just being able to say "i care" by republicans before the power shift in january and basically letting the chinese know that it is important enough that they too should pay attention to a more protectionist congress.

Posted by: adam | Dec 18, 2006 1:11:01 PM

mark

righto

i assumed u felt gentle ben
was leaving out hamlet in this production
of the danish tragedy

ie

---"If there's a connection to forex, etc., tell us what it is and how it affects the
policy outlook"-----

i'd guess
his silence on the to be or not to be here
implies no action will be taken
To counter the forex fiddle
behind
THE GREAT TRINKET DUMP

"I don't think we learned anything about what to expect from the Fed from the
speech "

indeed we didn't
because i fear ben will do... nada

Posted by: [slink](#) | Dec 18, 2006 1:18:39 PM

Well I think Galbraith's analysis is spot on. Does anything think that this
administration has any use for anyone but toadies and liars? I mean, why the
surprise? These guys are just doing what they were hired to do. If they didn't,
they'd be fired. Bush does fire people you know. The competent ones, the
independent ones. He keeps the incompetents and the flunkies, and if by some
terrible development, is forced to fire them, like Rummy, he then says they were
the best ever. Makes sense, doesn't it?

PS Does Bernanke have tenure, or can he be fired like Paulson, at will? If he has
tenure, then he was a pathetic wimp to go along with this charade.

Posted by: maria | Dec 18, 2006 1:24:01 PM

The Federal Reserve governors have been clear for years in saying the exchange

rates or the relative value of the dollar will not be a significant factor in adjusting short term interest rates. There is no reason to change such a stance, and there was surely no reason for Ben Bernanke to comment on this in China.

Posted by: [anne](#) | Dec 18, 2006 1:25:02 PM

I think the Fed is watching closely - e.g. if China changes its policy on foreign reserves, i-rates could start upward in the U.S. It's not exchange rates directly that matter, but what happens to inflation, output, and i-rates as a consequence does, i.e. the implications for the domestic economy.

Posted by: [Mark Thoma](#) | Dec 18, 2006 1:45:52 PM

anne
are u in agreement
with the fed's folded hands on forex ??

if so i'm surprised
u know how the pieces fit together
on all this

are there hidden objectives

like "lets not get a protectionist wave underwayif it starts the globe will suffer
better a few uaw stiffs take a bump ..."

Posted by: [slink](#) | Dec 18, 2006 1:50:05 PM

no doubt that bernanke knew what would make headlines in both china and here but after reading the speech i'd point out a couple of lines at the start of two successive paragraphs:

"Although more flexibility in the exchange rate would be helpful, the most direct and probably the most effective way to reduce the external surpluses and increase the welfare of Chinese households is to take measures to reduce domestic saving relative to domestic investment."

"A sustained program of expanding social services has the potential for reducing saving and raising living standards in China and, at the same time, moderating

China's external surpluses. In particular, increased government spending on health, education, and other types of social services would raise both household consumption and government consumption, and thus reduce national saving."

he doesn't even make the currency peg the top recommendation.

Posted by: adam | Dec 18, 2006 1:58:38 PM

Mark Thoma is correct, the Federal Reserve looks at how the domestic economy is performing. Were long term interest rates to increase from the remarkably low levels we find at present, the Fed could well act. But, there is at present no reason to be concerned with long term interest rates.

Though I understand the reasons for concern about a combative protectionism, I am little worried that protectionism will be more than a token political issue these coming 2 years. My sense is that Congress can do much to improve labor conditions in focusing on domestic policy, while I still do not expect a recession.

Alan Greenspan was often abroad offering analysis and advice, and I find nothing wrong with this for Ben Bernanke.

Posted by: [anne](#) | Dec 18, 2006 2:04:20 PM

mark

i assume you think fed i rates
might go up
to draw in replacement funds
for any
china cb moves toward
leaving dollars(net
of necessary additional bop funding)

but is this strategic
shift-flight
likely ??

changing the reserve mix
will pop
the narrow forex band

which is indeed the problem here

unfortunately

all evidence is

the chinese plan

to maintain the present dollar

support regime

there's this consolation

the ultimate insult

is impossible

to both maintain the dump mode

at full blast

and force up dollar interest rates

Posted by: [slink](#) | Dec 18, 2006 2:06:22 PM

anne:

"My sense is that Congress can do much to improve labor conditions in focusing on domestic policy"

elaborate ???

i'm blind to this potential

Posted by: [slink](#) | Dec 18, 2006 2:09:24 PM

I second slink - dollar revaluation is the only way US rebalances without completely nuking the working class... that includes mid-white collar working class too... they are just working stiff wage slaves in dockers instead of factory blue. After all, not much use for a manager who has nobody to manage... I think the more appropriate term for those kinds of managers is 'unemployed'.

If you all read setser & I know many of you do... we are set to run a trillion dollar CA/trade deficit next year. Explain to me how we do that without going a trillion in hock?

The only other way to bring the about rebalancing is via a consumption snuffing

recession. But we are being told *everywhere* that's not going to happen. Right?

So if not USD-RMB rebalancing, how does this end? And it does have to end - just about everyone agrees our escalating imbalance has to reverse.

Posted by: [dryfly](#) | Dec 18, 2006 2:10:24 PM

adam

i agree ben was slipping in
a bow crosser here

but only to add dark side leverage
to paulson's cap market free up pitch

a real fine team player eh ???

Posted by: [slink](#) | Dec 18, 2006 2:16:40 PM

i'm blind to this potential

Me too.

I'd like to know how congress improves 'labor conditions' by mandate when the companies compete directly with operations paying 25 cents an hour in Wuxi.

Is congress going to pay the health insurance, 401K contributions & the wage differentials... so their employers can compete and offer products to WalMart & Best Buy at the same prices China offers?

I think that is call 'protectionism' if I'm not mistaken... at least the wage differential is... and a terrible faux pas from WTO perspective.

Whose going to pay? And from what 'earnings'? Are we going to tax all those Vanguard millionaires so UAW workers can keep their health insurance? Who's in line after the UAW?

I know ending the war in Iraq is offered up as the solution for every ill - and I'm all for ending it & reallocating those resources - but this problem is bigger and getting way bigger every year.

So I'd like to see some 'elaboration' too.

Posted by: [dryfly](#) | Dec 18, 2006 2:21:43 PM

dry fly
me ditto u on that

Posted by: [slink](#) | Dec 18, 2006 2:25:15 PM

mark anne

forgive the sweat stains in my posts
this is very very close
to the heart of my political soul

Posted by: [slink](#) | Dec 18, 2006 2:27:45 PM

*but only to add dark side leverage
to paulson's cap market free up pitch*

Retrain UAW machinists to be traders & stock brokers... that's the plan. Dad selling securities... Mom selling real estate. Everyone rich and sassy.

Thank God we won't all have to flip burgers like the doom sayers predicted in the 80s & 90s. But take comfort if we do 'cause we'll all have better workers rights thanks to congress.

Posted by: [dryfly](#) | Dec 18, 2006 2:29:05 PM

slink - No problem at all. Please say what you think.

Posted by: [Mark Thoma](#) | Dec 18, 2006 2:30:51 PM

What I would push for: increase the minimum wage; subsidize employee health insurance, especially for serious illnesses; increase funding for Medicaid; federal-state revenue sharing to dramatically lower tuition at public colleges; federal-state revenue sharing for infrastructure development, including public primary and secondary school education; increase funding for HeadStart.

Posted by: [anne](#) | Dec 18, 2006 2:32:35 PM

yeah slink i don't have near the problem with what was said that i do in him going with the treasury secretary. independence of the fed is a big deal to me. the fed is a separate "team"

Posted by: adam | Dec 18, 2006 2:34:31 PM

The Administration has lessened enforcement and oversight in every employment related sector for which I know of responsibility, from mine safety to fair labor practices. A Democratic Congress can pressure the Administration on behalf of workers even with no changes in current law.

Posted by: [anne](#) | Dec 18, 2006 2:36:17 PM

What I would push for...

And anne - that laundry list makes the factory in my pretty well educated Midwestern home town (largest employer of both blue & white collar workers) more competitive with China... exactly how?

And who pays for this again? It won't be cheap.

Don't get me wrong - I'm for a lot of those things too - but the only way we support a social system like that is if we keep the jobs here to support the taxes to pay for that stuff. To do that we need to produce more tradables here and import less consumption from over there.

Only three ways I see that happening (1) dollar revaluation (2) consumption snuffing recession or (3) overt protectionism.

Option (1) looks like the best option for us though not so smurfy for those holding dollar denominated assets. But maybe they should have thought of that more carefully BEFORE they loaded up on them.

Posted by: [dryfly](#) | Dec 18, 2006 2:43:43 PM

Broadening the scope of federal-state revenue sharing for infrastructure development, I would surely include environment-protection research and

development programs. A \$3 billion current spending program on environment protection could easily be \$30 billion, and the economic benefits would be profound.

Remember though, we are spending \$10 billion a month on the tragic insanity of occupying Iraq and this spending will be an explicit and implicit excuse to limit every other possible social benefit program.

Posted by: [anne](#) | Dec 18, 2006 2:45:06 PM

The Administration has lessened enforcement and oversight in every employment related sector for which I know of responsibility, from mine safety to fair labor practices.

Again that is wrong - but how does fixing that make my small town factory more competitive vis-a-vis China (more than half the production has left already - 50 cents an hour & no benies vs \$12/hr & shitty benies).

Huh?

Posted by: [dryfly](#) | Dec 18, 2006 2:48:04 PM

\$10 billion a month is a drop in the bucket compared to a trillion dollar a year CA deficit. We got 9 more Iraqs to find to equal it up anne.

Not many of us here applaud Iraq - I don't - but this isn't about Iraq... It's about trade & competitiveness & how we support all those noble things you propose (and I agree with)... meanwhile we go deeper into hock buying trinkets from China.

Posted by: [dryfly](#) | Dec 18, 2006 2:51:46 PM

Yes; I understand, we can do nothing nowhere for no one because there is no money ever never, only money for Iraq. I know of the lunacy of what we do not have, but suppose a lovely middle western city, especially a university city, were to become a center for environment protection research and planning. California and Massachusetts are spending on bio-medical programs, especially research involving stem cell technology. Why should Minnesota, about university campuses, not be a critically important center for environment protection?

Posted by: [anne](#) | Dec 18, 2006 2:55:20 PM

anne i support all these moves but
their bottom wage earner
and health provision reform

at best your ed plans all very important are
collision
matters for those facing forex induced jobicide

i suggest
with fairer exchange rates

we don't need to destroy
our industrial core
in the first place

sweden surely is not

sweden stayed out of the euro zone
and has lowered the kroner
several times to retain trade balance and control the "post industrial "
transformation pathway

maybe we're headed toward zero factory labor

but pacing matters

if you're 35 to 55
when delco rolls over on you

which returns me to my point anne

these congressional moves
are not aimed at the 25 dollar an hour guys at delco
about to get blown out the factory gates
by chinese parts
that are cheap enough to submarine em

and if its not productivity diff or quality diff
but simply

because the dollar is overvalued
against the yuan/rmb.....

Posted by: [slink](#) | Dec 18, 2006 2:57:24 PM

Yes; I understand and am thinking. Sweden's currency however has lost 1.2% in value against the dollar in the 10 years since December 15, 1996.

Posted by: [anne](#) | Dec 18, 2006 3:02:15 PM

The Euro has gained a mere 4.0% against the dollar in 10 years. I do not find a problem with dollar exchange rates, for the market reflects no such problem. The Australian dollar has lost a mere 1.3% in 10 years against the American dollar.

Posted by: [anne](#) | Dec 18, 2006 3:05:33 PM

The sense I have is look to the New Deal for domestic inspiration, and push for an end to this terrible occupation of Iraq that diverts us so easily for social benefit programs. I simply cannot imagine that we are going to run out of work, because there is more work being done by others. For all the apples that are brought abroad and in other states, Whole Foods is filled with local apple products.

Posted by: [anne](#) | Dec 18, 2006 3:10:55 PM

anne you can't support any kind of new deal without value added tradables of some kind... and our currency rates are part of the problem, a big part.

And in fairness it isn't all China - a big chunk goes to the Gulf oil states, Russia, etc. Which is a separate issue...

But don't underestimate the effect currency plays. It is the only self correcting mechanism that doesn't take it directly out of workers hide via job loss - it takes it out of all of us via exchange purchasing parity... but that's the whole point... buy more here & less there... keep jobs here.

The New Deal health care & environmental stuff is all great - I'm for it - but it still doesn't answer the question... "How do programs like those help my factory

stay open vs Chinese competition?" There needs to be more.

You keep making comparisons to 1996 currency levels... remember, China wasn't on the scene then... they are on the scene now, big time.

A better comparison is Yen-USD say late 70s to late 80s to late 90s. Japan ascended & became a force due to two factors (1) hard work & talent and (2) an undervalued currency. That all changed at 'Plaza'.

Japan had some pretty harsh years right after that - mostly their own fault in not effectively internalizing demand away from export-only growth.

Most of that is behind them now & we are all better off for them not being so coupled to us.

China doesn't want to follow suit but I don't think they have a choice - just a matter if they do it by choice or forced by ugly circumstance. If the latter it will suck for all of us. It might suck for us anyway if we don't simultaneously enact some of those New Deal programs to ease us into the new reality.

As far as New Deal or revaluation - it doesn't need to be one or the other.

Posted by: [dryfly](#) | Dec 18, 2006 3:45:24 PM

Yes; your points are all important and I am thinking. But, remembering Japan which still has not been able to counter the artificial increase in value of the Yen after September 1985, China will not be Japan. I still do not well understand what has happened to Japan, however all the other currencies that increased in relative value to the dollar from 1985, returned to 1985 levels in 1991 and 1992.

Posted by: [anne](#) | Dec 18, 2006 4:05:29 PM

"And who pays for this again? It won't be cheap."

dryfly is really going to hate this answer

Return to Clinton era marginal rates and tax capital gains as income.

Simple, proven.

Now if tax cuts had actually produced the growth they promised then supply siders might have a defense. But the official numbers show productivity sharply down. The sharp downward revisions to reported GDP for 2002 to 2005 that were released with the 2006 Q2 numbers are pretty devastating. Not only wasn't growth after Bush II tax cuts particularly striking, at a stroke the BLS wiped large fractions of it away back in July.

<http://www.rgemonitor.com/blog/roubini/143953>

Q3 was pretty dismal at 1.6% and some are predicting a flat Q4.

<http://www.rgemonitor.com/blog/roubini/154353>

If tax cuts do not in fact provide growth then what good are they? If they do produce growth then explain away these numbers.

So the answer to who pays for Anne's New New Deal? Upper income earners and holders of capital. Unless someone cares to make the argument that absent those tax increases we would be in perma-recession. But by the same token that made supply siders ecstatic when Q1 came in at 5.6% you have to deal with 1.6% for Q3.

Why tax the rich? Because as Willie Sutton pointed out about banks: that is where the money is. Supply side is a proven failure, either that or these numbers are showing something very different from what they seem on the plain surface.

(And please don't tell Don Marek. He will probably have a stroke at the thought of it.)

Posted by: [Bruce Webb](#) | Dec 18, 2006 4:07:06 PM

Personally I don't trust the productivity/GDP numbers. I mean while I don't believe that markets are always magically rational and efficient, it seems odd to have the Dow at record nominal levels when (absent Q1 2006) growth has practically flatlined.

But the numbers are what they officially are, and supply siders need to deal with that, however inconvenient it may be.

Posted by: [Bruce Webb](#) | Dec 18, 2006 4:21:17 PM

Anne,

All that welfare state stuff won't make the US competitive in world trade. Large changes in currency valuations will. Check out the fall in the value of the dollar after the Plaza/Louve accords. A useful chart can be found at <http://research.stlouisfed.org/fred2/series/TWEXMTHY?&cid=105>. Note that the Current Account (CA) deficit soared from 1981 to 1985 and then fell back to roughly zero by 1990.

Medicaid won't solve the problems of workers unemployed by "Exchange-Rate Protectionism". Jobs will. To create and sustain well-paid domestic employment we need a competitive currency.

Right now America's trade policies are designed to maximize the Goldman bonus pool. Expanding the welfare state won't solve that problem. Breaking the dollar pegs (starting with, but not limited to the RMB) will.

Posted by: [Peter Schaeffer](#) | Dec 18, 2006 4:55:19 PM

It sounds like the only proven to be effective remedy anne is suggesting is the rise in the minimum wage (as the wages of recent college grads have been falling like a stone).

Following her proposals, we can avoid protectionism/tariffs and any moves with teeth wrt China and the peg.

Yay!

But from the looks of it, more and more of us formerly middle class or working class folks are going to be surviving on the minimum wage.

Boo. Hoo.

Just wondering anne: how would *you* survive on the minimum wage?

Posted by: [dissent](#) | Dec 18, 2006 4:56:07 PM

anne

sweden did its big devaql before 96

but more basically

you are looking at the wrong currency

north south currency is where the tilt is

japan climbed for a decade before the mid 80's

try 370 yen to the dollar in the early 70's

what's it today

and yes the yen is over valued relative

to south currency too

al the better for the massive capital export of the last 17 years

but this is the tree count

its the forest that needs to be grasped

the dollar is seriously over valed against the currency of strong export
emergersouth nations

and your tenacity r4sisting this and the obvious long run consequences

now relected in our 200 billion no oil trade gap

about three years of frozen imports would perhaps balance this

but this be speaks greater conviction

on your part

then any one in the rust bowl has

from where comes your

pro trans nat corp

maginot line here

i hope you are confusing globalization tran nat style

with one world some day visions

because this road leads to iternational conflict

not harmony

Posted by: [slink](#) | Dec 18, 2006 4:59:40 PM

Slink, I may well change my mind on currency value. I am playing with the

possibilities.

But, I am given another fine idea while I play:

"All that welfare state stuff won't make the US competitive in world trade."

Then why not say the heck with the welfare state and do things right; no social security, no Medicare, no Medicaid, no employee health insurance, no free public schooling for anyone ever, no more public colleges at any price, no unions, no worker safeguards ever never.

"All that welfare state stuff won't make the US competitive in world trade."

Posted by: [anne](#) | Dec 18, 2006 5:24:25 PM

"All that welfare state stuff won't make the US competitive in world trade."

Blame Teddy Roosevelt for setting us down the welfare road in ending child labor in America. Bad, Teddy, bad, Teddy. Blame China and end the American welfare state before it gobbles us all up (the welfare state that is). First Iraq, second China.

Posted by: [anne](#) | Dec 18, 2006 5:27:15 PM

Oh, and especially, no minimum wage at all; there is the answer. Say what? How about unions, then? What is nice is belonging to a union that really does offer balance. Or, is the point no minimum wage and no unions? I forget.

Posted by: [anne](#) | Dec 18, 2006 5:32:45 PM

<http://www.nytimes.com/2006/11/21/us/21janitor.html?ex=1321765200&en=f139e42d0ca84d0a&ei=5090&partner=rssuserland&emc=rss>

November 21, 2006

Cleaning Companies in Accord With Striking Houston Janitors
By STEVEN GREENHOUSE

Houston's major cleaning companies and the union representing 5,300 janitors there announced a tentative contract yesterday that ends a monthlong strike,

raises the workers' hourly wages by nearly 50 percent over two years and provides them health coverage.

Under the three-year deal, the first for the janitors since they unionized last year, their pay, which now averages \$5.25 an hour, will increase to \$6.25 on Jan. 1, 2007; to \$7.25 on Jan. 1, 2008; and to \$7.75 on Jan. 1, 2009.

Further, the employers agreed to increase a janitor's typical shift to six hours a day, from four. Many of the janitors had said they were being given too few hours of work to support their families.

As a result of the rise in both hourly pay and the hours in the workweek, the employees expect to see their paychecks double over the next couple of years.

"It's a moment of great victory," said Mercedes Herrera, a janitor for five years who earns \$5.15 an hour. "We all came together, and the union gave us strength. Many of us have never received a raise. I've earned the same ever since I started, so the raise is great." ...

Posted by: [anne](#) | Dec 18, 2006 5:33:50 PM

<http://www.nytimes.com/2006/11/03/us/03labor.html?ex=1320210000&en=7e1de42c381db409&ei=5090&partner=rssuserland&emc=rss>

November 3, 2006

Janitors' Union, Recently Organized, Strikes in Houston
By STEVEN GREENHOUSE

Last year, more than 5,000 janitors in Houston decided to form a union, giving organized labor one of its biggest victories ever in the South.

But now the janitors are locked in a new struggle. They have gone on strike because five Houston cleaning companies have rejected their proposal for a salary increase to \$8.50 an hour, up from the current average of \$5.25 an hour.

The companies say the proposal for a 62 percent increase, along with health insurance, is unrealistic.

The janitors, who generally work four hours a day, say they are merely asking for enough to support their families.

The tensions, and the theatrics, intensified sharply yesterday as the union's supporters blocked a main thoroughfare in front of the Galleria mall, staging a sit-in that led to the arrest of 12 people. For nearly two hours, the group blocked Post Oak Boulevard, just outside a Neiman Marcus store, with the police seeming confused about how to handle the situation.

The union's pressure tactics have gone much further. The union, the Service Employees International Union, has sent strikers to picket office buildings in Chicago, Jersey City, Los Angeles and Sacramento, enlisting janitors in those cities to honor the picket lines and disrupting cleaning operations there....

Posted by: [anne](#) | Dec 18, 2006 5:35:22 PM

"All that welfare state stuff won't make the US competitive in world trade."

Well, then, to war with China. I am all tingly thinking about the possibilities.

Posted by: [anne](#) | Dec 18, 2006 5:36:40 PM

"All that welfare state stuff won't make the US competitive in world trade."

Well, then, to war with China. I am all tingly thinking about the possibilities.

I don't understand the rhetorical suggestion of war. Are you suggesting that war as a course of action is comparable to the path of protectionism/end of the peg? Are these paths comparable in destructiveness in your view? Could you itemize how they are comparable in destructiveness? I'm sorry anne, I just don't understand.

Posted by: [dissent](#) | Dec 18, 2006 5:43:49 PM

I find it a bit odd that people in Washington think they can either pressure or persuade China to do something that it doesn't want to do. It was not as if Bernanke had anything new to tell them. Is it not significant that the US is going to China hat in hand? The Chinese are quite okay with things as they are; they don't come to Washington to pressure, persuade or beg. And why should they do us gratuitous favors? Our threats are empty. There won't be any tariffs imposed, and the US has nothing else with which to threaten. Perhaps the US will begin to

understand that its international clout is slipping. Power has shifted elsewhere.

Posted by: maria | Dec 18, 2006 5:47:37 PM

I forgot to add that the US does have one other means to threaten China. It could threaten to default on its debt. How far in the future do you suppose that might be?

Posted by: maria | Dec 18, 2006 6:08:14 PM

It would be rather easy to get China's attention.

"Due to security concerns, and due to intellectual piracy run amok, beginning July 1, 2007 every single cargo container from China will have to be unloaded under the watchful eye of Customs and every carton opened to check for bombs and phony CDs."

Within a week the ports on the west coast would be in chaos, within two weeks Chinese imports would grind to a standstill.

Then they might talk. This would really piss off the U.S. Chamber of Commerce. Goody!

Posted by: [save_the_rustbelt](#) | Dec 18, 2006 6:35:01 PM

Return to Clinton era marginal rates and tax capital gains as income.

I love it.

I've said all along income is income & expenses are expenses... harmonize & simplify and most of the tax shenanigans end.

Heck, I'd eliminate or reduce the home mortgage exclusion & roll inheritance estate taxes into income tax besides (make the recipient of the inheritance count it as income on their tax filing, not the estate separately).

I also don't have a bitch with higher marginal rates... not if our gov't is going to spend the way it is determined to spend.

But none of that tax stuff will fix competitiveness vis-a-vis China & 'the South'

UNLESS the currency issue is addressed, rebalanced.

Separate issues.

Posted by: [dryfly](#) | Dec 18, 2006 7:09:28 PM

James Galbraith acts as though Fed Chairman Ben Bernanke doesn't have a job to do on matters associated with U.S. monetary policy and international banking actions. If the Federal Reserve Chairman sees the same globally-driven U.S. domestic problem that SecTREAS Paulson sees on matters pertaining to currency valuations, then he should speak up in a supporting role. Bernanke is the U.S. central banker. The U.S.-China currency issue has a direct impact on U.S. monetary policy and addressing direct and indirect influences of such policy is well within his lane.

Galbraith acts as though U.S. support of China's entry into the WTO didn't occur or wasn't solicited. He acts as though China has no mutual responsibility to its trading partners, its labor force, or the planet's environment. He acts as though there is nothing the U.S. can do to improve its trade situation globally and with China. All nonsense.

Worst of all, though, Galbraith says...well, here are his words: "Somehow, all this will reduce the deficit in the US-China balance of trade, a goal whose importance everyone agrees on but that no one can actually explain."

Can't explain the U.S.-China balance of trade? Is he that clueless?

Yes, Galbraith may be clueless on this point. Clueless to the actions that the U.S. Government can take, regardless of temporary internal pain. Should take. And, by some indications, may take.

The continued nonsense here and elsewhere that no one can rein in China's abuse of currency valuation, WTO rules, and trading relationships will come to an end if some hard-nosed adults would step up to the plate.

If China changed its valuation tomorrow causing a much larger increase in its competitive advantage globally, some appear to act as though nothing should or could be done. And what is happening right now is not so dissimilar.

Actions can be taken and are so stipulated in U.S. Code. It's time to stop shooting BBs and get real.

There are quite a few actions that the U.S. doesn't have to do - and one of them is continue its formal membership in the WTO. The Congress votes on that issue, reaffirming U.S. participation. Same story for currency manipulations of trading partners. The U.S. has long favored bilateral trade agreements. Perhaps the U.S. should refocus on those initiatives and temporarily or permanently dump formal membership in WTO if that is what it takes to wake up China and the WTO.

Posted by: [Movie Guy](#) | Dec 18, 2006 8:07:44 PM

My favorite Bernanke quote from his trip to China:

"From an institutional perspective, China may find--as many countries have done-- that granting greater autonomy to the central bank, by insulating it to a degree from short-term political concerns, increases its ability to ensure price stability and support stable growth. Of course, central banks must remain accountable to governments over the longer term."

Movie Guy: "Somehow, all this will reduce the deficit in the US-China balance of trade, a goal whose importance everyone agrees on but that no one can actually explain."

No one with any power to do anything about it.

Posted by: Winslow R. | Dec 18, 2006 8:37:07 PM

Winslow,

James Galbraith made the statement.

I disagree that nothing can be done. That's simply not the case. We may not like the outcomes, but quite a lot can be done.

Posted by: [Movie Guy](#) | Dec 18, 2006 8:43:30 PM

MG: "Winslow,

James Galbraith made the statement."

Right.

I was trying to explain that James is not saying nothing can be done or that no one has a clue. Just those in power have no clue or perhaps just prefer to appear clueless.

He does not consider himself to be one of those in power.

I think this is a form of English humor which Americans tend to miss. Reread the article with a greater sense for sarcasm.

Posted by: Winslow R. | Dec 18, 2006 8:57:02 PM

Winslow,

You're right. I misread that. So, that screws up my first post as well.

Posted by: [Movie Guy](#) | Dec 18, 2006 9:02:40 PM

I'd like to know what can be done to push China around. I don't think we are going to stop Chinese imports. Not any. Fact is, China has all the cards, China knows it, and so does "Washington." If push came to shove, China might begin selling (with vast publicity) some of its Treasuries; Wall Street would panic and surrender in short order. Hence the pathetic trip to plead and beg, with no result. The US is in a trap of its own making, as in Iraq, only this is an economic trap and with China. Uncle Sam is getting old and tired and ain't what he used to be.

Posted by: maria | Dec 18, 2006 9:12:31 PM

OT: Hillary now regrets her vote for the war. If Hillary is turning her coat, things in Iraq must really be finished. I think Gates is funny, saying that it would be a "calamity" if we "lost" in Iraq. Where has he been the last few months? Must have been getting briefed by Bush. LOL.

Posted by: maria | Dec 18, 2006 9:17:00 PM

"I'd like to know what can be done to push China around. "

No need to push China, just a need to see the opportunity China presents.

U.S. gov and private sector are creating what China wants, financial securities.

Too bad the gov is using the opportunity on wasteful enterprises abroad. It took some 3500 people with 20th century technology to create Hoover Dam. We have some 140,000 abroad fighting a crazy war.

Posted by: | Dec 18, 2006 9:23:19 PM

James Galbraith provides an hilarious "tongue-in-cheek" post-mortum on the Treasury trip to China last week.

In reality of course the most important words spoken in China last week were not spoken in public. Public speaking in China can be dangerous.

As US Treasury Secretary, Mr Paulson is our top bond salesman. As former chief of Goldman Sachs his bond selling credentials are no doubt impeccable.

So in secret he reminded his hosts that the US Bond is the safest and most liquid asset China could ever want. My guess is that he probably offered the latest new features on his product - higher interest rates and a more valuable dollar. I'm sure the Chinese were very happy to hear that.

But Mr Paulson also told them something else and used his friend Chairman Bernanke to help plunge his point deeply into their little yellow hearts. He said, "If you don't free up your markets and currency then we will impose tariffs of 27% and we will raise interest rates so high that consumers in the US will be stopped dead in their tracks.

Mr Paulson is no patsy and the Fed will not monetize the debt.

Posted by: [John Booke](#) | Dec 18, 2006 9:36:07 PM

"...we will raise interest rates so high that consumers in the US will be stopped dead in their tracks." Yeah, don't you wish. That is not how Washington operates. Things like that happen only after disaster has struck, as in 1981.

Posted by: maria | Dec 18, 2006 9:42:23 PM

There are plenty of actions that the U.S. Government and American transnational corporations can undertake.

If we observe movements in the next two years, we will know that process is being undertaken.

Absent a significant devaluation of the U.S. Dollar, the U.S.-international trade picture will continue on an unsustainable path. The path isn't limitless.

So, yes, action will be taken at some point.

The defeatist attitude that nothing can be done is naive.

Posted by: [Movie Guy](#) | Dec 18, 2006 10:19:26 PM

Apart from reverse the tax cut, stopping financing/conducting disastrous wars, stop corporate welfares, giving better labour protections and public educations (the money can easily come from raised tax from wealthy people)... I also suggest that in the case of China, study what China really need and can't make it for herself and target research/production to that direction.

I know our host has asked that question before: what does China want. One field I see quite high demand is environmental friendly technology. Water waste treatment is mainly done by French firms. Solar/Wind power generators are implemented by Germans... And despite the investment by the central government, lots of water waste facilities are not being used because it is still too expensive for locals. Competition is needed to bring down the price. Americans for sure can play a vital role there... Just one thought.

I have to say that Ben Bernanke surprised me with his remark because at the hearing to become the Fed Chairman, he was being really reasonable and not bashing China at all. It is a mystery why he behaves so differently now.

Posted by: [a](#) | Dec 18, 2006 11:05:18 PM

Things could be done, but they won't be. The US will wait until a real crisis erupts (run on the dollar, whatever) before it acts. And then it will be too late. As with Iraq, much can be done, but it isn't being done.

Posted by: maria | Dec 19, 2006 12:40:22 AM

slink: "tell this to the swedes
not jumping into the euro
wage compacter
saved their system"

What does this have to do with price of beer in China?

The Euro is a wage-compactor? How so? Just the opposite, it has been a wage expander, with European wages outa sight compared to the rest of the world.

It is a shame that the Euro is NOT a wage compactor, because that is exactly what is needed to renew job creation in the EU.

Posted by: [Lafayette](#) | Dec 19, 2006 12:59:35 AM

maria

all uncle sam's trade and monetary reps nedd do is
threaten a freeeze on imports from china of well selected products
this will get them to restrain exports to us arrive at de facto quotas etc

this is the way japan's fiddle was handled
while japan slowly raise the yen
still japan prefers to restrain exports by "deals"
then balance trade
administrative off sets are unfair and sub optimal
but as a practical matter they might slow the industrial job loss

anne i sense u beating a tactical retreat here into other grave but different
issues

the fate of the welfare state and the spiking of the war fare state

james booke u sound like a fine main street babbitt type

sound dollar and alls right under god

maria
we never need default on debt in our own currency
the feds got an endless supply

we are not nor can become
weimar germany
despite very self serving fear mongering to the contrary

suffice it to say
those in this country that benefit handsomely from this global north south
forex tilt
will rejoice at all diversionary notions put up out of good faith
like yours and annes
it covers their less then properly
patriotic willingness
to screw the job class majority
here
in quest of a higher profit

btw
this in my case is hardly china bashing
in fact its not china i blame here at all
but washington

if you have concerns for china
recall
they have keynesian levers to maintain job growth without export expansion
in fact labor intensive green projects are as much an option for them as us
if you export and sterilize the earnings
the short run real value of the production
domestically
is zero
export jobs are not as labor intensive as many infra structure projects of vast
rural reconstruction
ala the new deal

they could impose export tariffs collect the super profits of the low forex
themselves
(stigs remedy)
at any rate i've spent time on both sides of this
and the blame i'll repeat falls squarely on trans nat profits
not chinese national development

but a head on crash is a possible outcome
good for the warfare state bad for the welfare state

Posted by: [slink](#) | Dec 19, 2006 1:21:06 AM

"I've been thinking about the proper role of the Fed chair in this situation, i.e. the extent to which Bernanke should speak out on matters such as this. I don't have the answer (your thoughts?). "

My thoughts? For what it's worth: Bernanke is still a political novice. He knows that this bunk administration will likely not be around to renew his mandate. But, can he be sure?

Nothing is sure in politics, especially in America where sentiment can swing suddenly from one side of the 50% divide to the other in a presidential election.

So, he plays the game. Without much heart, but, hell, what can he do. The Chinese have America by the you-know-whats with their mountain of American debt as reserve assets.

China is betwixt and between. Had they wanted to do so, they should have sold their T-notes long ago and put them into Euro-notes. In fact, maybe they did exactly that, which is why the Euro has appreciated so quickly in four years, going from 87 cents to the dollar up to around 130 cents to the dollar. (Yes, the Euro has cents, like the dollar.)

It is difficult to imagine that the BCE will not react to this ride up in the Euro - there is sufficient political ill-will already for fear of the higher Euro snuffing the flame of EU economic growth that seems to be rekindling.

So, the Chinese are in a "damned if I do, damned if I don't" position regarding their dollar reserves.

This administration, having brought back the bone given by the Chinese, will now let that sleeping dog lie. Let's not forget why Westinghouse got the nuclear plant contract ... because it agreed to give the Chinese technological secrets that the French disdained giving.

Otherwise, Areva would have walked away with the contract, since its technology is indeed superior, at present, to that of Westinghouse. After all, France has been generating 80% of its energy needs by means of nuclear plants for nearly forty years.

Besides, China's needs in energy production are enormous. Areva will be there

for the next contract. Don't think the Chinese are so stupid as to put all their bones on the same serving plate.

The knot-heads in Washington produced an "energy report", chaired by the VP, within a half year of arriving in power. That report preconceived a great need for nuclear energy in America. What has been done or actually accomplished? Nada ... apart from a meaningless war over in the sandbox in forlorn hopes to snatch the Iraqi oil prize.

As they say in French: "Plus nul, tu meurs ..."

Posted by: [Lafayette](#) | Dec 19, 2006 1:37:02 AM

lafayette

one

swedes protected their wage rate structure

by a major deval

in the early 90's

very apropos

since this china thing is about an over valued dollar if you step back and view

the entire horizon "south"

of here

as to the euro "compaction" mechanism

the "old europe "

job class members of the common market

are right now

"stuck " inside the euro zone

hung up on this over valued euro

bombarded by job seeking foreign folks

from low forex states inside the eu

folks fleeing

eastern job markets

while

a second whip saw effect

sends

western capital migrating east

in quest of low wage factory sites

from and towards "new europe"
and a good deal of it because the euro is
seriously over valued against certain eastern member currencies
shades of perot's mexico fears eh ???

okay mexico and china together had to fulfill that nite mare

but forex played a role as well as
terms of nafta and the wto

all this
is of course
doing what you want laf
squeezing wage structures
ie compacting them

if your on the profiteer side of the divide its got to lookbracing and
vigorous for a sloppy over paid job force
meanwhile the returns to u herr portfolio joe
are hedonic
and immediate
while
the gains to jobsters
are virtuous and long term

btw
the swedish currency needs to deval again
in my estimation
this new gub
however is more to your liking laf
they too choose higher big corporation profits over higher real wage rates
deflationary pressures over tight labor markets

Posted by: [slink](#) | Dec 19, 2006 1:42:33 AM

laf
" the higher Euro snuffing the flame of EU economic growth that seems to be
rekindling "

so there such a thing as a too high euro

really both the dollar and the euro need to deval
heavily

even the yen mayhaps needs a serious tandem decline

Posted by: [slink](#) | Dec 19, 2006 2:16:02 AM

slink: "all uncle sam's trade and monetary reps nedd do is threaten a freeeze on imports from china of well selected products this will get them to restrain exports to us arrive at de facto quotas etc"

Such an act will be in direct contravention of agreements signed with the WTO. Such bullying unilateralism in trade is a stupidity consigned to the past, let's hope.

The WTO is the arbiter of matters of contention as regards commerce, and unless Uncle Sam wants to paint itself into a corner, then it will work its issues via the WTO. (Where there is already a running battle regarding subventions given to Boeing and Airbus for new product development.)

And, as regards China, America DOES NOT have any viable issues. China does not need to "dump" products onto the American market; they are cheap enough as it is.

So, what IS America's quarrel with China?

> Low-skilled jobs leaving its golden shores in droves? Whose fault is that? The Chinese don't have the right to work for slave wages ... when the alternative is starvation?

> The threat of high-skilled jobs doing the same? That's competition, I thought, a fundamental principal of liberal economic thought isn't it?

Wake up time, folks ...

Posted by: [Lafayette](#) | Dec 19, 2006 2:36:42 AM

"I think that is call 'protectionism' if I'm not mistaken... at least the wage differential is... and a terrible faux pas from WTO perspective."

Then you don't understand the rules of international competition.

Nations compete on products and only indirectly on wages. The jobs leaving the US and Europe are low-skilled at present. If you want the Chinese to climb up the technology ladder, they are more than pleased to oblige us.

Until now, globalization has been a free-ride for both Europe and the US. That paradigm is gone - we are witnessing its remnants. America and Europe must redirect their skills and competencies to other markets and newer technologies.

This means obviously an accent on Information Workers in national service sectors (free from external competition) and educational adaptation across the board. This latter must start a very young age - meaning Zero Tolerance for any child that falls behind.

No more "coasting" to either a secondary-school diploma or to any college diploma either. A touch of discipline and some standards in education, applied to student achievement and pedagogical competence alike, can do wonders.

America and Europe have both been "cocooning" for decades. How can one put it any more plainly?

Noted aside: Just WHY has the Army had so much success in recruiting the younger set with promises of an education? And, those WITH an education, why aren't they on military duty over in the sandbox? My answer: Failure of the American schools to properly teach people the skills, talents and knowledge necessary to obtain a decent job (other than at a fast-food outlet).

Posted by: [Lafayette](#) | Dec 19, 2006 2:52:51 AM

"All that welfare state stuff won't make the US competitive in world trade."

Of course, all that welfare state stuff, like unions and a fair minimum wage, and general health care insurance, and minimal tuition public colleges, and infrastructure development, and environment reserach and development programs, is just what is needed and just what we could be about. Of course, we could leave Iraq immediately and the resources would be there for all sorts of programs to strengthen domestic America.

Posted by: [anne](#) | Dec 19, 2006 3:01:44 AM

"Too bad the gov is using the opportunity on wasteful enterprises abroad. It took

some 3500 people with 20th century technology to create Hoover Dam. We have some 140,000 abroad fighting a crazy war."

Precisely. Leave Iraq immediatley, and build America.

Posted by: [anne](#) | Dec 19, 2006 3:03:09 AM

<http://www.nytimes.com/2006/12/19/opinion/119herbert.html>

Bush and F.D.R.

To the Editor:

Bob Herbert writes of thousands of Katrina victims still "suffering in silence, out of the sight of most Americans."

He also notes that "the government could have come up with a crash program to build housing and find or create jobs for the victims of Katrina."

I remember another president faced with a far greater catastrophe. The bleeding-heart liberal Franklin D. Roosevelt raised America from its Depression-era depths with a vast rebuilding program that produced new structures, infrastructures, services and jobs.

George W. Bush touted himself as a compassionate conservative. Yet his actions and inactions clearly reveal his compassion, indeed — for the wealthy.

Jerry Albert

Hicksville, N.Y., Dec. 18, 2006

Posted by: [anne](#) | Dec 19, 2006 3:07:37 AM

<http://select.nytimes.com/2006/12/18/opinion/18herbert.html>

December 18, 2006

Out of Sight

By BOB HERBERT

Baker, La.

There are hundreds of children in the trailer camp that is run by FEMA and known as Renaissance Village, but they won't be having much of a Christmas. They're trapped here in a demoralizing, overcrowded environment with adults who are mostly broke, jobless and at the end of their emotional tethers. Many of the kids aren't even going to school.

"This is a terrible environment for children," said Anita Gentriss, who lost everything in the flood that followed Hurricane Katrina and is living in one of the 200-square-foot travel trailers with her 10-year-old daughter and 5-year-old son. "My daughter is having bad dreams. And my son, he's a very angry child right now. He cries. He throws things.

"I'm desperately trying to find permanent housing."

The television cameras are mostly gone now, and the many thousands of people from the Gulf Coast whose lives were wrecked by Katrina in the summer of 2005 have slipped from the national consciousness. But like the city of New Orleans itself, most of them have yet to recover.

The enormity of the continuing tragedy is breathtaking. Thousands upon thousands of people are still suffering. And yet the way the poorest and most vulnerable victims have been treated so far by government officials at every level has been disgraceful.

More than a third of the 1,200 people in this sprawling camp are children....

Posted by: [anne](#) | Dec 19, 2006 3:09:46 AM

slink: not to prolong an argument, but do you really think the "leaders" in Washington will do what you think they should do? At least for the next two years Washington is headless. Given an overwhelming public desire to get out of Iraq, Washington is leaning toward sending more troops in!!! Given all the interests that adore the present situation with China, Washington cannot possibly create tariffs on any products. And yes, the Treasury can churn out as many dollars as need be. My suggestion of (unthinkable) default was only to show that Washington has no real means to pressure China at all. They have us by the balls and we'd be better off not to squirm so much. LOL.

Posted by: maria | Dec 19, 2006 4:31:07 AM

Liked this so much, I couldn't resist linking to it, in spite of its being a bit OT:

<http://www.antiwar.com/pat/?articleid=10185>

Posted by: maria | Dec 19, 2006 4:37:49 AM

I don't like this "only China can save us by appreciating their currency" mantra. It is not true that the US can do nothing to get its ass out of the mire. It is not true that domestic measures are useless. And, maybe most important, it is not true that RMB appreciation will automatically solve anything.

I concur with anne on the necessity of reviving new-deal-like policies, and I concur also on the importance of investment in "environment-protection research and development programs", in energy efficiency, and in infrastructure projects like public transport.

As to the idea that devaluing the dollar will automatically solve everything: The dollar's Euro value has almost halved within a few years, the Canadian \$ is close to parity, etc. *This didn't change the trade deficit trend in the least.* And Canada and Europe are not losing as much manufacturing as the US. There must be something else than forex, don't you think? The trade deficit with China is the biggest chunk, but even without that chunk, the deficit would still be astronomical. I have to say that your over-confidence in the power of forex strikes me as as magical thinking.

Moreover, if you are serious about devaluing the dollar, then you should welcome dramatically higher energy prices. Do you welcome this prospect? I do. But the impact will be dramatic unless we start seriously investing in smart energy-efficient technology and infrastructure. This would automatically create jobs, strengthen the manufacturing base, and reduce the trade deficit. *We don't need China's or the WTOs permission do do this.* We just have to do it. And your "nothing can be done unless China..."-mantra is making things worse because it helps prevent doing the things that can, and must, be done.

Posted by: piglet | Dec 19, 2006 11:12:04 AM

I am sure this will sound cartoonish but I don't mind being laughed at.

Would we even really care about the Current Account Balance if we had a Combined Deficit of zero? There was a brief shining moment when that happened, there was a period in which we simply stopped selling 30 year

Treasuries. Quite apart from the social utility of increasing marginal rates and taxing capital income at regular rates and using those funds for energy research or universal health care is the byproduct of not relying on the Chinese National Bank or for that matter anyone else propping up the primary bond market.

From a US governmental perspective the only danger resulting from the Chinese National Bank dumping bonds is that it increases the costs of funds. But if that government isn't borrowing does it really care? What leverage really then remains? Now large scale holders of existing Treasuries might not be excited, but from the Treasuries perspective this is a zero sum game.

Now in the scenario where there is no long term debt being issued the Chinese have some choices. Whether or not they dump their existing bonds they can either continue to sell to the United States for dollars or not. And they can either sit on those dollars (in effect making an interest free loan to the United States) or use them to buy commodities elsewhere.

What would the effect of that be? Well more dollars chasing a fixed amount of goods should have some inflationary effect, that is driving up the cost of imports for us, but which in turn improves our trade position. But ultimately American dollars can only be truly converted to value by purchasing American products. Like airplanes, or big trucks, or supercomputers.

As I said the model is cartoonish. But if the ultimate danger to the United States is that foreign banks stop financing our new debt the answer is conceptually simple - stop issuing new debt. I am sure that the patriotic Americans who have made the most gains from free trade, and insist that S-T-R and I support it will gladly step up to the plate and eliminate the threat posed by the Chinese banks.

Raise taxes so as to stop issuing debt. Poof most of the risk of an unbalanced trade position vanishes.

Posted by: [Bruce Webb](#) | Dec 19, 2006 12:19:40 PM

We can of course

- withdraw from Iraq
- adopt New Deal type policies
- seriously address the currency misalignments.

In no way are these mutually exclusionary.

Posted by: [dissent](#) | Dec 19, 2006 2:33:14 PM

I've read this essay twice. I've never seen anything even implied about economic elites.

What I saw were interests.

Open source dweebs who have limited interaction with others and program all night long have interests that transcend the local. Their main connections are with others who share that interest, and largely maintain those interests over the internet.

Ditto religious interests, literature, gardening, quilt-making and an endless number of hobbies in general. And including, alas, this group as well.

If you are an accountant, your professional interests transcend your current locale and even your current employer. And if forced to choose between the job and the profession, many professionals will choose to look for another job.

Those professionals frequently live in large cities. Why? Well, it's where the work is, for one. And it is where a robust demand for the work is, for another. An accountant in a big city can tell someone to go stuff it asked to do something unethical, but it may be more difficult to do in a small town, where flexibility is harder to come by.

Being cosmopolitan strikes me as very different from a world being criss-crossed by differing interests. You can have differing interests without being cosmopolitan, although I'm not sure one can be cosmopolitan without having a broad range of interests.

And while the difference between city and country is an old one, it seems to me the communication possibilities of the internet enhance as well as complicate that old conflict

Posted by: [Richard](#) | Dec 19, 2006 3:25:35 PM

"<http://select.nytimes.com/2006/12/18/opinion/18herbert.html>

December 18, 2006

Out of Sight

By BOB HERBERT

Baker, La.

There are hundreds of children in the trailer camp that is run by FEMA and known as Renaissance Village, but they won't be having much of a Christmas. They're trapped here in a demoralizing, overcrowded environment with adults who are mostly broke, jobless and at the end of their emotional tethers. Many of the kids aren't even going to school.

"This is a terrible environment for children," said Anita Gentris, who lost everything in the flood that followed Hurricane Katrina and is living in one of the 200-square-foot travel trailers with her 10-year-old daughter and 5-year-old son. "My daughter is having bad dreams. And my son, he's a very angry child right now. He cries. He throws things.

"I'm desperately trying to find permanent housing."

The television cameras are mostly gone now, and the many thousands of people from the Gulf Coast whose lives were wrecked by Katrina in the summer of 2005 have slipped from the national consciousness. But like the city of New Orleans itself, most of them have yet to recover.

The enormity of the continuing tragedy is breathtaking. Thousands upon thousands of people are still suffering. And yet the way the poorest and most vulnerable victims have been treated so far by government officials at every level has been disgraceful.

More than a third of the 1,200 people in this sprawling camp are children...."

That's a shame--those people sound "Non-Competitive."

Posted by: [ninjaplease](#) | Dec 19, 2006 8:00:35 PM

Today's newspaper reports indicate Chinese manipulation of the Thai currency. One can only imagine if this penchant on the part of Chinese officials has not also had a hand in the depreciation of the dollar.

Let's not forget that if the Chinese reserves are enormously rich, it is because people "voted" for China in buying its cheap gadgets. Thanks, in large part, to

the Walton family.

So, be prepared to live with the consequences. When people start blogging about "Why China is playing such a key role in international affairs?", take a look at all those gizmos in your house that are ... Made in China.

When buying consumer products, look beyond the immediate satisfaction of the purchase, on to what it means ultimately. The "price" may not be as cheap as you may have thought.

Posted by: [Lafayette](#) | Dec 19, 2006 9:44:52 PM

Bruce Webb: "Raise taxes so as to stop issuing debt. Poof most of the risk of an unbalanced trade position vanishes."

That absolutely makes sense, and it shows that the key to resolving the trade deficit issue lies with the US themselves. It is their choice, not the Chinese, to live on credit. Stop living on tick, pay what you buy and don't buy what you can't pay. Don't act like wimps who always claim that it's all somebody else's fault.

Posted by: piglet | Dec 19, 2006 10:38:50 PM

Administration now says that China does NOT manipulate its currency, thus undermining its own position. Talk about a cave-in! Somebody in Beijing must have scared Paulson near to death. LOL.

<http://apnews.myway.com/article/20061219/D8M46GAG0.html>

Posted by: maria | Dec 19, 2006 11:10:42 PM

To straighten out the various comments and opinions on this article, one only needs to watch the eye opening film "America: Freedom to Fascism" (<http://waft.blogspot.com>) to discover who is behind what, who controls what and where America is really headed. This is a MUST see if you are an investor, property owner, taxpayer, American! You will soon see how articles like this and situations like this matter little in the scheme of things. We all need to WAKE UP!

Posted by: [Jim Paulson](#) | Dec 27, 2006 5:58:36 AM

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